new models for profitable growth

J. C. Penney Company, Inc.
1997 Annual Report

our businesses

Together, our JCPenney Stores and Catalog, Drugstores, Insurance, and International businesses are creating new models for profitable growth. With our financial strength, market leadership, increased scale, and greater efficiency, we have new opportunities for serving customers that we've only begun to explore.

our focus

The Customer

financial highlights

(In millions except per share data)	1997	1996	1995	1994	1993
Total revenue	$30,546	$23,471	$21,242	$20,937	$19,440
Earnings before one-time charges, net of tax	839	793	838	1,057	944
Net income	566	565	838	1,057	940
EBITDA (1)	2,771	2,166	2,116	2,388	2,254
Per common share:					
Earnings before one-time charges, net of tax – diluted	3.12	3.17	3.33	4.05	3.55
Net income – diluted	2.10	2.25	3.33	4.05	3.53
Equity	29.16	25.67	24.76	23.45	21.53
Dividends	2.14	2.08	1.92	1.68	1.44
Debt to capital per cent (2)	60.4%	60.1%	52.6%	53.1%	51.1%
Retail square footage					
JCPenney stores	118.4	117.2	114.3	113.0	113.9
Eckerd drugstores	27.4	26.4	6.2	4.5	4.6

(1) Earnings before one-time, non-recurring charges, interest, taxes, depreciation and amortization, including intangibles. (See Supplemental Data, page 34.)
(2) The 1996 debt to capital per cent is shown assuming the completion of the Eckerd acquisition.

nature of operations

JCPenney Stores and Catalog is comprised of 1,203 domestic and international retail stores. Stores are located in all 50 states, Puerto Rico, and include two stores in Mexico and one in Chile. Virtually all store locations have catalog desks. The Company's merchandise offerings consist of family apparel, jewelry, shoes, accessories, and home furnishings.

Eckerd Drugstores is comprised of 2,778 drugstores located in the Northeast, Southeast, and Sunbelt regions of the United States and includes the Company's former Thrift, Fay's, and Kerr drugstores. Eckerd sells pharmaceuticals and related products as well as general merchandise.

JCPenney Insurance is a direct-marketing organization which markets life, health, accident, and credit insurance, as well as non-insurance products. It markets to various credit card files by direct response solicitations primarily in the United States and Canada.

contents

To Our Stockholders

The J. C. Penney Company ended 1997 as a larger, more focused company, one that is poised to serve customers in many ways.

Domestically, we are positioned to serve the consumer in nearly 1,200 department stores, through our catalog offerings, and through the dynamic world of the Internet. Internationally, we serve customers in our department stores in Puerto Rico, Mexico, and Chile. Our 2,778 Eckerd drugstores serve our customers' pharmacy and convenience needs. We also provide a wide range of products and services through our direct marketing insurance company.

This was a transition year, during which we undertook a number of strategic initiatives to position the Company for long-term profitability. In the process, we have created new models for profitable growth that will carry us into the 21st century.

Our Company has increased size, focus, and strength. Total revenues increased from $23.5 billion in 1996 to $30.5 billion in 1997. In the past two and a half years, we have sold some operations that did not fit with our strategic vision while expanding our drugstore business.

New models for profitable growth. We see distinct growth opportunities in each of our businesses. JCPenney stores and catalog are aggressively pursuing profitable growth opportunities by evaluating and changing their processes to better serve the customer and increase their return on assets. Drugstores provide a vehicle for driving new growth. We foresee steady sales and profit growth for our JCPenney Insurance direct-marketing business.

Our international team is focused on long-term opportunities for expansion in Puerto Rico, Mexico, and Chile. The international operation was expanded in 1997 to include our stores in Puerto Rico, recognizing the synergies of these stores and our international units in merchandise, sourcing, and other operations.

We also will benefit from the synergies of the combined businesses – sharing new opportunities for reaching our customer and driving down costs through support consolidation. As we unite our strengths in merchandising, marketing, customer data, and technology – and the power of 260,000 associates working together to identify and exploit these new opportunities – I am confident of our future success.

A year of change. During this transition year, we focused much attention on integrating our drugstores and on initiatives designed to lay the foundation for long-term profitable growth. Major developments included:

• The completion of the acquisition of Eckerd Corporation and the conversion of 1,100 former Thrift, Fay's, and Kerr drugstores to the Eckerd name and format. As a result, our drugstores entered 1998 positioned to deliver $100 million in annual operational savings.

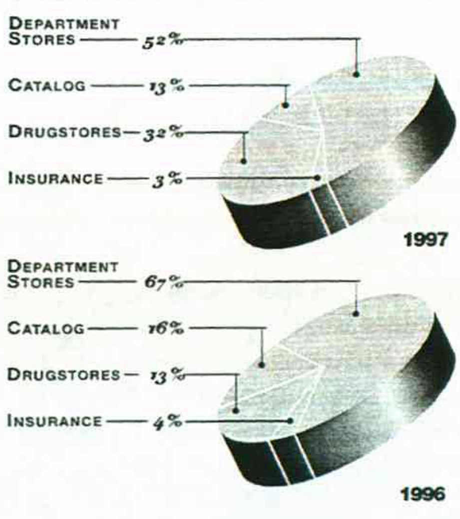
• The sale of the assets of JCPenney National Bank, which netted a gain.

• The reorganization of the Company into four business units, each headed by a chief operating officer: department stores and catalog, under John Cody; drugstores, under Frank Newman; insurance, under John Fesperman; and international, under Tom Hutchens.

• The completion of a voluntary early retirement program involving JCPenney store, catalog, and corporate support management, which will result in projected annual savings of $85 million.

• The beginning of performance-enhancing initiatives to change the procurement and merchandising processes in JCPenney stores and catalog.

revenue



James E. Oesterreicher, Chairman of the Board and Chief Executive Officer

"We will benefit from the synergies of the combined businesses – sharing new opportunities for reaching our customer and driving down costs."

We also began using technology better to consolidate and change many of our store support processes. We have begun the outsourcing of our benefits administration to improve the accuracy and reduce the costs of delivering benefits to our active and retired associates. These steps will allow stores to transfer significant resources to serving our customers and will assist in managing administrative costs.

• Changes to the buying processes as well as the store and home office organizations to facilitate greater speed in merchandising and marketing in JCPenney stores and catalog.

We anticipate these changes will produce net cost savings of $50 million in 1998 and annualized savings of $105 million thereafter, in addition to the savings realized from the early retirement program and drugstore integration.

EVA®: Raising the bar. We would like to report another important change: the adoption of Economic Value Added (EVA) as a key measurement and management tool. EVA has gained broad acceptance in the investment community. Simply stated, EVA is the earnings that remain after subtracting the cost of capital, an important cost not considered by traditional performance measures.

Beginning in 1998, our Company will set goals based on the continuous improvement of EVA year-to-year. EVA will be used as the basis for allocating resources to projects that offer the highest return. Performance against our targeted EVA objectives will be one of the measures that determine incentive compensation for approximately 400 of our senior managers in 1998.

Signs of progress. Our results for the fourth quarter demonstrate that we are on the right track. Earnings before one-time charges for the quarter ended January 31, 1998, totaled $365 million, or $1.36 per share, compared with $301 million, or $1.20 per share, in fourth quarter 1996, an increase of 21 per cent.

Our recent progress gives us confidence about the future. We have laid a solid foundation for profitable growth, and we continue to examine every part of our business for ways to improve. We have the financial strength that allows us to pursue growth opportunities and provide steady dividends, as well as the scale to manage the cost components of our business. Our directors recently affirmed their confidence in our outlook by increasing the Company's quarterly dividend to an indicated annual rate of $2.18 per share.

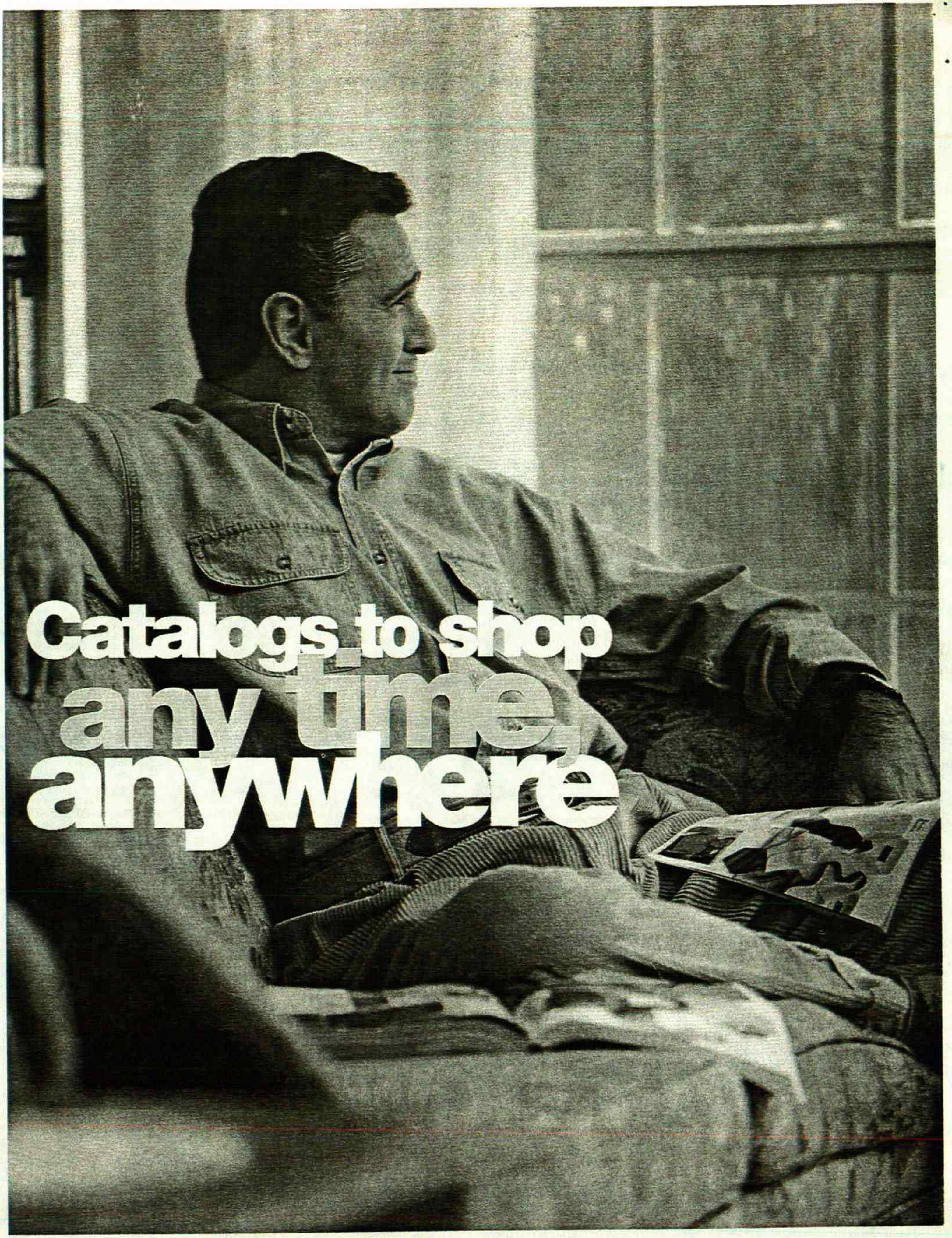
The key to the improvements we have made – and those we will make in the future – is the energy and imagination of our associates, who must manage in today's constantly changing business environment. We are determined to capitalize on each new opportunity and to leverage our improvements to maximize value for our customers and stockholders.

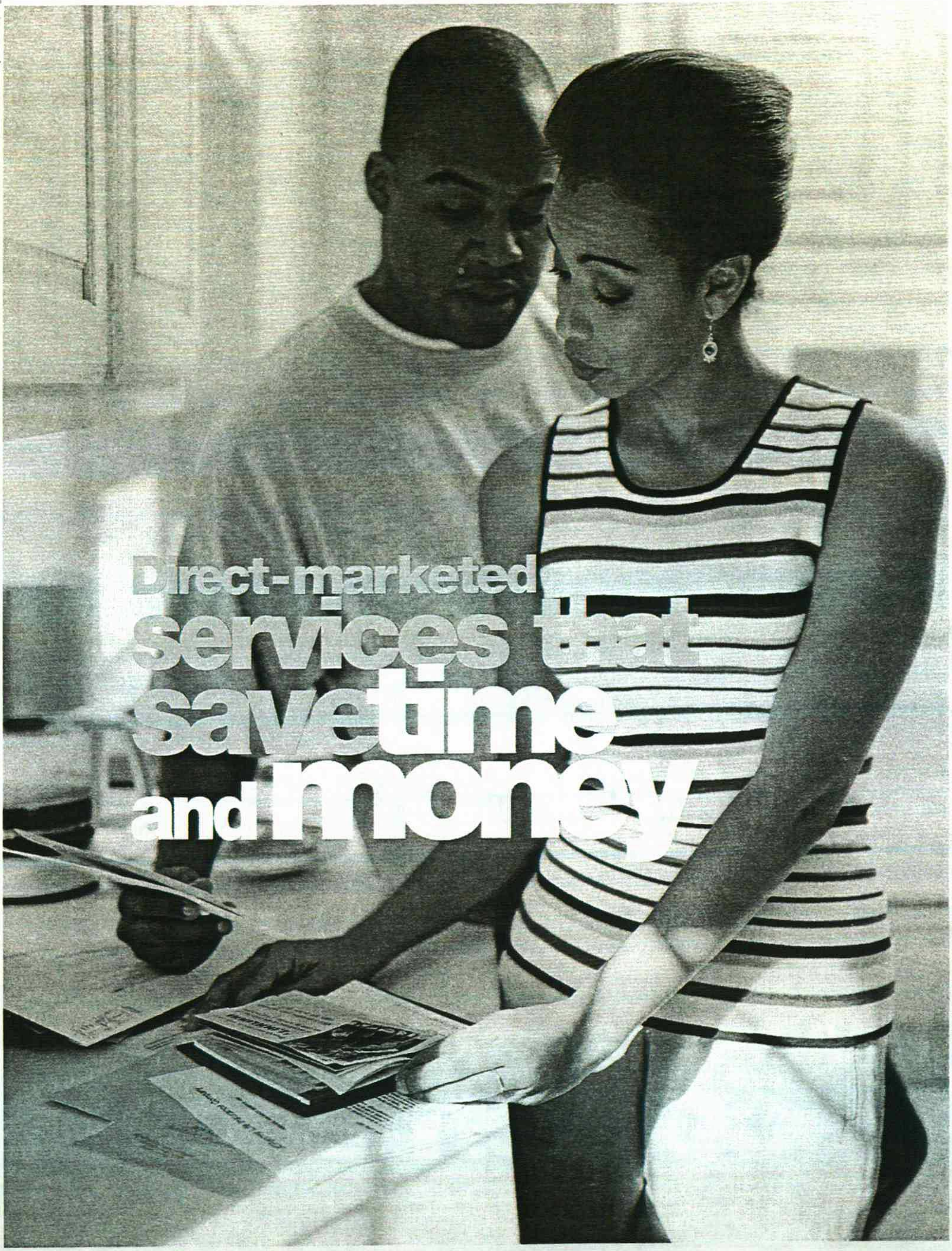
Our friend and partner Barger Tygart retires as Vice Chairman of the Board on April 30. His leadership has inspired us and has helped guide our Company through many changes during his 38-year career. We thank him for his dedicated service and honor his accomplishments. We also salute Joseph D. Williams, who retires in May, for his valued contributions as a Director for the past 13 years. And we welcome our newest Director, Francisco Sanchez-Loaeza, Chairman, Chief Executive Officer, and President of Panamerican Beverages, Inc., of Mexico City, who joined the Board in February.

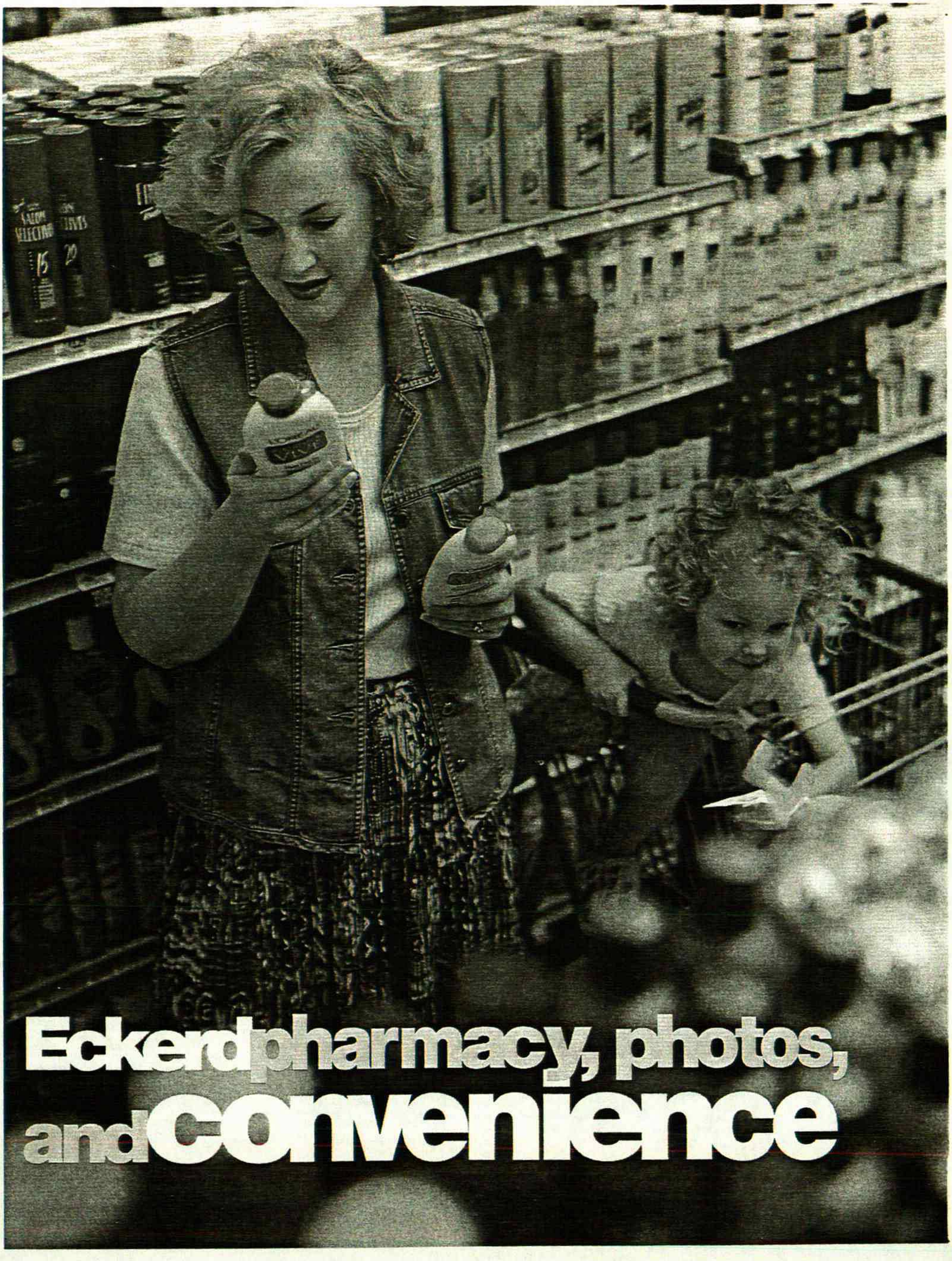
The following pages provide more insight on the opportunities before our management team in this period of transformation and growth. We thank you for your support and the trust you have placed in the J. C. Penney Company, and we remain committed to building the value of your investment.

J. E. Oesterreicher


JCPenney
JC
Penney
Stores with
the right items,
right now


Catalogs to shop
any time,
anywhere


Direct-marketed
services that
save time
and money


Eckerd pharmacy, photos,
and convenience

Our businesses reach the customer in multiple ways. Our challenge is to do it faster, better, and at less cost than we have in the past. Business as usual is not an option.

new models for profitable growth

JCPENNEY DEPARTMENT STORES

Our 1,203 department stores comprise the core franchise of the Company. With locations in major regional shopping centers in all 50 states and stores in Puerto Rico, Mexico, and Chile, JCPenney is positioned to be the department store of choice for value-conscious consumers.

JCPenney has achieved leadership in each of its major merchandise areas – women's apparel and accessories, menswear, children's apparel, family shoes, and home lines. Our market leadership and enduring relationships with customers provide a strong platform for pursuing our goals of sales growth and profit recovery.

JCPenney stores have succeeded through 96 years of change. Today, change is a fact of business life, and our challenge is to manage in a way that anticipates and responds to rapid changes in our customers, competition, and technology.

The race goes to the swift. To stay competitive in the retail marketplace, we are changing our merchandising processes to speed the flow of goods and respond more efficiently to our customers' demands. During the past year we have begun to implement three new models for the procurement of merchandise: one for day-in-day-out basic merchandise, one for the fashion end of our business, and one for SKU-intensive areas, such as shoes, neckwear, and fine jewelry. We are also narrowing our merchandise assortments.

We expect the changes in merchandising processes to help us maintain tighter inventory control, improve turnover, and drive sales growth as we respond to customers' fashion needs with timely merchandise.

Private brands remain one of our major strengths and continue to drive sales in all our divisions. A big story in 1997 was the growth of St. John's Bay®. As a "power brand" in men's, women's, and children's apparel and footwear, St. John's Bay is fast approaching the success we have achieved with The Original Arizona Jean Company® brand.

The Original Arizona Jean Company® continues its strong performance as one of America's leading jeanswear brands, a position bolstered by the success of ZONZ™, an offshoot teen brand with a youthful, streetwise edge. Similarly, the Hunt Club® brand, our Stafford® men's brand, and the Worthington® career brand for women have achieved strong top-of-mind awareness with consumers that competes with that of the best-known national brands in their categories.

Another up-and-coming performer in our women's division is Jacqueline Ferrar®, a line of sophisticated, contemporary fashions that was expanded to more than 700 stores in 1997.

The Private Brand Development team we formed in 1996 has helped us respond to merchandise trends while maintaining our high quality standards. This team also has led the expansion of our direct sourcing programs, which enable us to generate higher margins while maintaining competitive prices.

Signs of opportunity. We came out of 1997 with many indicators of profitable growth potential in our department stores, including:

- Fourth quarter recovery. Operating profit for JCPenney stores and catalog improved 42 per cent over fourth quarter 1996, reflecting a substantial improvement in gross margins and well-managed expenses.

- The addition of key national brands. In women's, Joneswear Sport has been added to the Joneswear career line in 250 stores. In August 1998, we will launch Crazy Horse, a new casual brand from Liz Claiborne, in 375 stores. Our home division has added Laura Ashley merchandise in

focus

We're changing the buying process to respond more quickly to fashion trends.

selected stores. And in men's, the resurgent IZOD brand set the pace for strong sales growth in golf attire.

• Our dress business. This segment showed substantial growth and was an important element in our fourth quarter profit recovery.

• Store modernization program. During the past two and a half years, we have purchased, relocated, modernized, and/or opened 272 department stores and JCPenney Home Stores – producing 13.3 million gross square feet of new and updated retail space. Converting non-sell space to productive selling space during remodeling allows us to present stronger merchandise statements.

• JCPenney Home Stores. We now have 30 of these free-standing stores, which range from 31,000 to 42,000 square feet and feature broad assortments of home furnishings and accessories. These stores allow us to assert our dominance in soft-line home merchandise while also increasing space for apparel lines in our department stores.

• International growth. Our two stores in Mexico produced good results in 1997 as the country's economy rebounded. We plan to open two additional department stores in Mexico in 1999, in Mexico City and Guadalajara. We also plan to add a JCPenney Home Store to our presence in Santiago, Chile, in 1998.

Working smarter, better. Meanwhile, we have taken a number of steps to take cost out of our business, increase efficiency, and improve customer service. In addition to closing 75 stores, we are reducing the number of store districts from 54 to 47 and decreasing the number of management positions in our stores. At the same time, we are delayering the organizational structure in the merchandising divisions. We also reduced staffing in marketing support areas through consolidation and outsourcing.

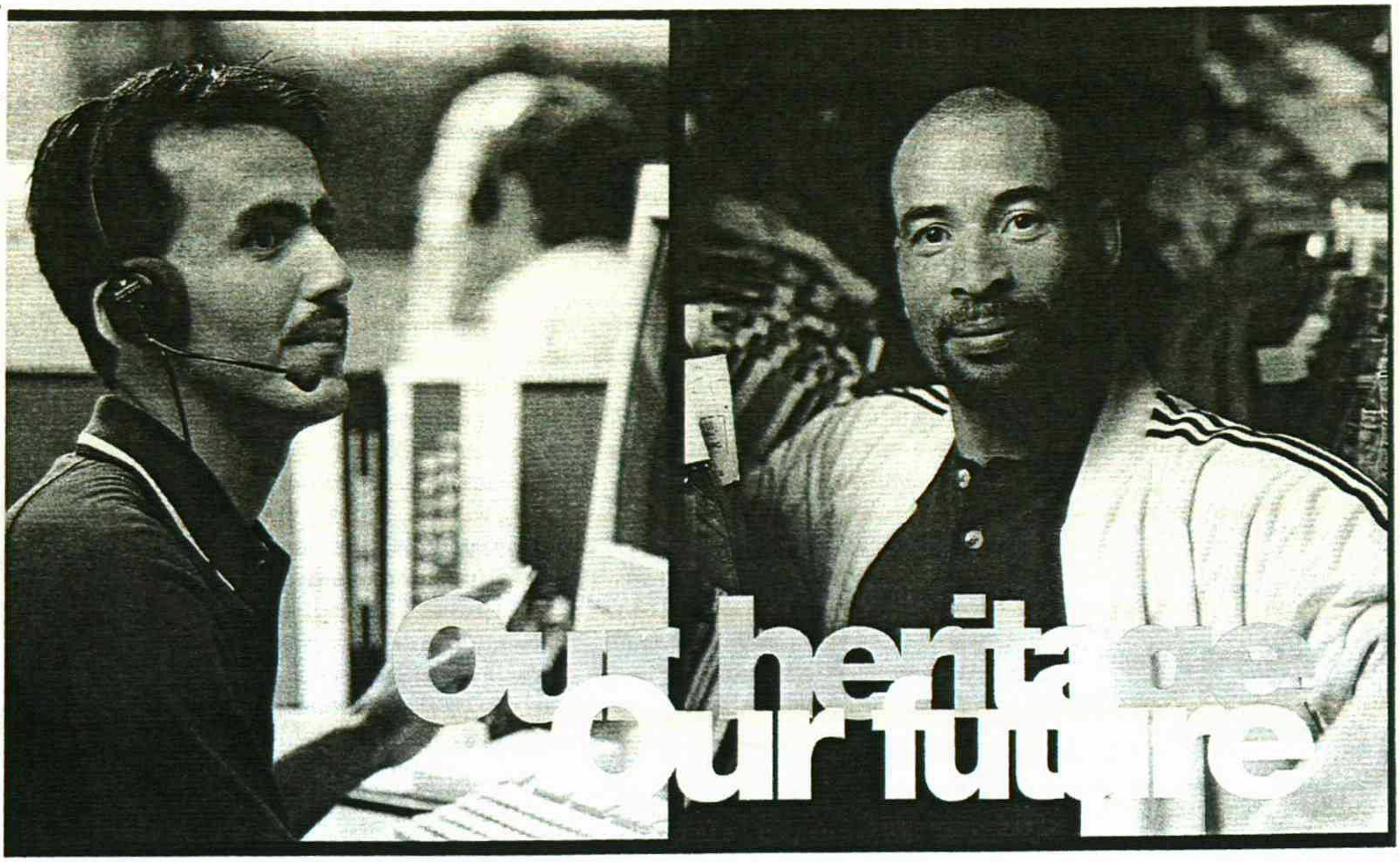
To help stores focus more resources on customer service, we are using technology to consolidate and change many of our store support processes, such as personnel functions, record keeping, and invoice processing.

With our new processes and organizational changes in place, we see opportunities to increase the value we provide to customers and improve the profitability of our stores.

JCPENNEY CATALOG

JCPenney Catalog is the nation's largest general merchandise catalog operation. With sales of nearly $4 billion, desks in more than 1,800 locations nationwide, and a vast fulfillment network, Catalog is a valuable asset and a major component in our strategy for profitable growth.

JCPenney Catalog already enjoys top-of-mind awareness as a retailer of choice for millions of catalog shoppers. Our spring and fall "big books," our Christmas catalog, and more than 85 sale and specialty catalogs offer a broad range of merchandise – many in extended sizes and colors – that can be ordered by phone, 24 hours a day, seven days a week. We also meet customers' needs through catalog desks in our department stores and selected drugstores, freestanding catalog stores, and online through the Internet.



Catalog sales grew 3.6 per cent in 1997. Of particular note were strong sales of home furnishings, sustaining our industry dominance in that category, and gains in women's apparel sales. Meanwhile, aggressive expense management and operational efficiencies helped keep operating costs low.

Synergy: the order of the day. JCPenney enjoys strong synergy between its retail stores and catalog. In 1997, more than 8 million orders – 10 per cent of our catalog business – came from store referrals, which are orders placed by store sales associates to help customers obtain merchandise not available in-store. Store associates enter most of these orders electronically through the cash register, which saves time and eliminates a phone call.

Other examples of this synergy include:

• Catalog desks in our drugstores. Currently in 110 drugstores, customers can place or pick up a catalog order while filling prescriptions. In all drugstores, customers can purchase one of the JCPenney big books, pick up free specialty catalogs, and charge any of their purchases to the JCPenney credit card, if they choose.

• The Special Needs catalog. This specialty catalog offers home health care items and easy dressing apparel, making it a perfect fit for the drugstore customer. Catalogs targeted to drugstore customers were repackaged under the Eckerd logo.

• Our nationwide Gift Registry. We have seen tremendous growth in this niche business since its inception in 1994. In addition to targeting the wedding market, we recently launched a marketing campaign promoting our Baby Gift Registry, which provides the same gift-giving service to families with newborns. The Gift Registry is supported by specialty catalogs featuring a broad assortment of gift merchandise, as well as home or office delivery from our catalog fulfillment centers and no-hassle returns at any JCPenney store.

• Online shopping. The acceptance of shopping via the Internet is growing, and our fulfillment capability makes us well-positioned to reap the benefits of this expanding market. We recently improved the interactive design of our World Wide Web store (www.jcpenney.com/shopping) and added an electronic order form so that customers may now order any item from our print catalogs online. And the Gift Registry is now also available online. These advances produced a sixfold increase in online sales in 1997.

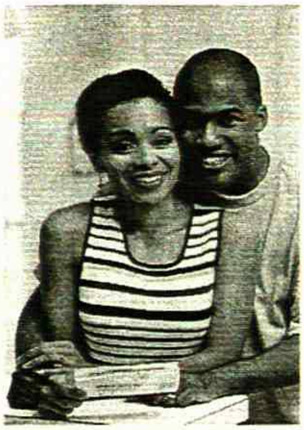
In print, in stores, and in cyberspace, JCPenney Catalog helps us meet customers where and when they want to shop.

ECKERD DRUGSTORES

When signs on the Thrift Drug stores in Erie, Pa., changed to Eckerd in 1997, a cornerstone of the American drugstore culture returned to its birthplace – nearly a century after J. Milton Eckerd opened his first pharmacy there in 1898.

1997 was a landmark year in another respect: Our drugstores were converted into one integrated chain with nearly 2,800 stores – the fourth-largest U.S. drugstore chain in sales volume.

In an eight-month span, more than 1,100 former Thrift, Fay's, and Kerr stores were converted to the Eckerd nameplate and format. Each store was reset, and every piece of



trust

Being the customer's choice means being the best at what we do.

merchandise had to be handled in the conversion process. The best product lines were selected from the previous stores' assortments to be expanded chainwide. A print and broadcast media campaign helped introduce the Eckerd name to customers and assured them that their drugstore needs would continue to be met.

A vehicle for growth. Having emerged as a major player in a growing industry, our drugstores are well-positioned to serve as a growth vehicle for our Company for years to come. For fiscal 1997, Eckerd sales were $9.7 billion, a 13.3 per cent increase over pro forma results from the previous year, and comparable store sales rose 7.4 per cent.

Eckerd is well-represented in the Northeastern, Southeastern, and Sunbelt regions – areas of the country with large retiree populations – and owns the No. 1 or No. 2 market share in 37 of our 42 major drugstore markets. Additionally, we have one of the largest in-store photoprocessing operations in the drugstore industry and one of the largest mail-order prescription services.

In general, the nation's population is growing older, and for the drugstore industry this translates into a growing market for pharmaceuticals and health-related products.

Also, the emergence of HMOs and managed care provides opportunities to leverage our size and proven tradition of quality customer care. For consumers who pay a flat copayment for prescriptions, what determines where they shop are convenience and service – two of our strengths.

The power of partnership. By capitalizing on the synergy between our drugstores and other businesses, we see a tremendous opportunity to challenge and improve the assortment of front-of-store merchandise in drugstores.

Most of our new and relocated drugstores are built in freestanding locations that provide more visibility, more selling space, and new conveniences, such as drive-through pharmacy windows. We have demonstrated that stores relocated from strip centers to freestanding locations typically record a 30 per cent first-year sales gain

Greater sales productivity per store, combined with recent investments in faster communications and point-of-service technology, and the savings realized from consolidation, will help drive down SG&A expenses and boost operating margins.

JCPENNEY INSURANCE

What is the value of trust? For JCPenney Insurance, trust in the JCPenney name is a key competitive advantage that has helped us become the leading direct marketer of insurance and related products in North America.

The reward has been more than 30 years of success and growth. JCPenney Insurance revenues reached $928 million in 1997, a 13.4 per cent increase from the previous year. Since 1992, revenues and operating profits have grown by an average of more than 19 per cent annually.

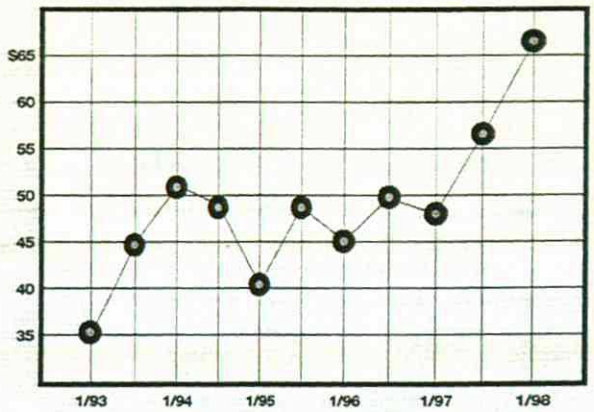
JCPenney Insurance offers life, health, accident, and credit insurance through cost-effective direct-response channels, such as telemarketing, direct mail, and billing inserts. Our market basket of products also includes membership services, such as discounts on travel and health services. We began by marketing to the JCPenney credit customer file, but over the years we have expanded our customer base through business relationships, primarily with banks, oil companies, and retailers. We now have more than 13 million insurance policies, certificates, and membership accounts in force.

Trending positive. Growth has been strong, and we see continued potential for our direct marketing approach – especially considering that our current business relationships include most of the top 10 credit-card issuing banks and major oil companies. Our growth strategies include:

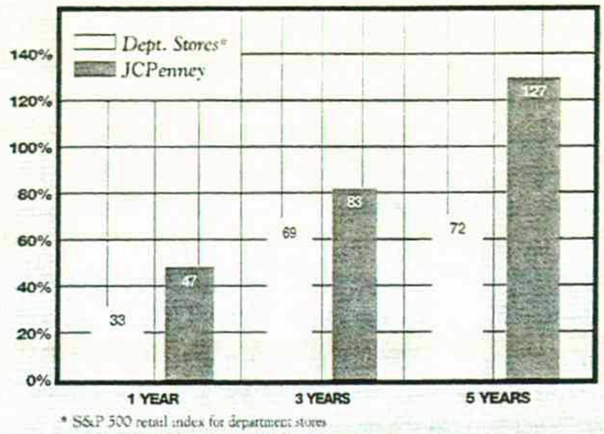
- Membership services. This is a growth area that offers opportunities to leverage our direct-marketing expertise for greater productivity from existing assets. We are currently working with our drugstores to identify opportunities that are complementary to both of our operations. Increasingly, we will market products of other companies as well as those we develop. Recent additions to our portfolio include LeisurePlus™, offering money- and time-saving travel options, and MotorPlus™, featuring services for automobile travelers, both of which were developed by other companies.
- International expansion. Building on our success in Canada, we will launch our first overseas operations in 1998 in the United Kingdom.
- New business relationships. We are exploring opportunities for new relationships, including some with companies whose primary customer lists and billing media may not be credit-card based.

We continue to drive down our operating cost, which has declined steadily during the past 10 years as a percentage of revenues. At the same time, we remain committed to maintaining the quality of service that has built our customers' trust and made us a provider of choice for direct-marketing services.

review



STOCK PRICE
Stock performance for the past five years, showing year-end and mid-year stock price.



TOTAL STOCKHOLDER RETURN
Total stockholder return consists of stock price appreciation and reinvestment of dividends.

management's discussion AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Fiscal 1997 was a year of transition and new initiatives for JCPenney. During the course of the year, the Company:

- Completed the acquisition of Eckerd Corporation (Eckerd) and converted its existing drugstores, consisting of approximately 1,100 former Thrift, Fay's, and Kerr drugstores, to the Eckerd nameplate and format. This provides us with new growth opportunities and will provide expected cost savings of $100 million per year.
- Announced a voluntary early retirement program, a corporate restructuring, and the closing of underperforming stores and support facilities, which will improve profitability in JCPenney stores and catalog.
- Continued to generate record profits in its direct marketing insurance operation.

Each of our business segments, which are described on page 2 of this Annual Report, offers a unique opportunity for future growth. This is enhanced by increased synergy that management believes can be achieved. The Company is committed to maintaining a leadership position in the businesses in which it operates, maintaining its financial strength, and enhancing stockholder value.

md&a (CONTINUED)

RESULTS OF OPERATIONS

Earnings before restructuring and business integration expenses (one-time charges), net of tax, totaled $839 million, or $3.12 per diluted share, in 1997 compared with $793 million, or $3.17 per share, in 1996 and $838 million, or $3.33 per share, in 1995. Net income totaled $566 million, or $2.10 per diluted share compared with $565 million, or $2.25 per share in 1996 and $838 million, or $3.33 per share, in 1995. In 1997, the Company had an average of approximately 20 million additional shares outstanding, primarily as a result of the Eckerd acquisition.

During 1997, the Company recorded one-time charges of $447 million on a pre-tax basis. These charges consisted of $151 million for a voluntary early retirement program, $66 million for corporate restructurings, principally related to JCPenney stores and catalog support functions, $148 million for drugstore integration activities, and $145 million for store and support unit closings. These amounts were offset by $63 million of gains from the sale of certain business units. The Company expects to realize significant ongoing savings, primarily from lower salary costs, once these initiatives have been fully implemented.

FOURTH QUARTER

The Company finished the year with strong operating performance. Fourth quarter earnings before one-time charges, net of tax, totaled $365 million, or $1.36 per diluted share, compared with $301 million, or $1.20 per share, in last year's fourth quarter, an increase of 21 per cent. Including one-time charges, net income was $224 million, or 85 cents per share, compared with $94 million, or 36 cents per share, in the comparable 1996 period, which also included one-time charges. Fourth quarter operating results were positively impacted by improvement in gross margin, primarily as a result of reduced markdown activity for JCPenney stores and catalog, and continued strong profits from the direct marketing insurance operation.

JCPENNEY STORES AND CATALOG

($ in millions)	1997	1996	1995
JCPenney store sales	$16,047	$15,734	$14,973
% inc/(dec)	2.0[1]	5.1	(0.3)
Comp store % inc/(dec)	(0.3)[2]	3.4	(1.4)
Catalog sales	$ 3,908	$ 3,772	$ 3,738
% inc/(dec)	3.6[1]	0.9	(2.1)
FIFO gross margin %	30.8	30.1	30.8
LIFO gross margin %	30.9	30.2	30.8
SG&A %	24.0	24.0	24.4
Operating earnings (FIFO)[3]	$ 1,371	$ 1,183	$ 1,199
% of sales	6.8	6.1	6.4

(1) Fiscal 1997 was comprised of 53 weeks. On a comparable 52-week basis, JCPenney store sales increased 0.7 per cent and Catalog sales increased 2.7 per cent.

(2) 1997 comparable store sales are shown on a 52-week fiscal year basis.

(3) Operating earnings excludes net interest and credit operations, and one-time charges.

1997 COMPARED WITH 1996

FIFO operating earnings increased to $1,371 million in 1997, up 15.9 per cent compared with $1,183 million in 1996. The increase was principally the result of improvements to gross margin and managing of selling, general, and administrative (SG&A) expenses. Sales for JCPenney stores increased by 4.5 per cent in the first half of the year and slowed in the second half of 1997. Sales in the second half of 1996 and the first half of 1997 were stimulated by promotional markdowns resulting from high inventory levels. Sales performance in JCPenney stores in 1997 was led by the women's apparel division, particularly in dresses and career and casual wear, and the children's and shoe division. Catalog sales increased by 3.6 per cent in 1997 compared with 1996 and were led by women's and men's apparel as well as the home division.

FIFO gross margin increased by 70 basis points in 1997 compared with 1996, despite a very promotional first half of the year. The Company recorded a LIFO credit of $20 million in both 1997 and 1996. SG&A expenses were well managed across all areas of the Company, particularly advertising, and were flat as a percentage of sales as compared with 1996.

md&a (CONTINUED)

1996 COMPARED WITH 1995

FIFO operating earnings were $1,183 million in 1996 compared with $1,199 million in 1995. Sales in JCPenney stores were soft in the first half of 1996 compared with 1995 and accelerated in the second half as inventory levels rose and the Company implemented aggressive marketing programs to drive traffic in the stores. Catalog sales were weak through most of the year but strengthened in December and January, generating a small sales gain for the year. FIFO gross margin declined by 70 basis points in 1996 compared with 1995, primarily as a result of aggressive marketing programs designed to boost sales volumes and reduce inventory levels. In 1995, the Company recorded a $7 million LIFO credit. SG&A expenses were well managed in 1996, improving by 40 basis points as a per cent of sales.

ECKERD DRUGSTORES

($ in millions)	1997	Pro Forma 1996	Pro Forma 1995
Sales	$9,663	$8,526	$7,730
% increase	13.3[1]	10.3	9.6
Comp store % increase	7.4[2]	7.8	7.8
FIFO gross margin %	21.7	21.9	22.9
LIFO gross margin %	21.4	21.7	22.9
SG&A %	17.3	17.7	18.9
Operating earnings (FIFO)[3]	$ 424	$ 360	$ 311
% of sales	4.4	4.2	4.0

(1) Fiscal 1997 was comprised of 53 weeks. On a comparable 52-week basis, sales increased 11.2 per cent.

(2) 1997 comparable store sales are shown on a 52-week fiscal year basis.

(3) Operating earnings excludes interest expense, amortization of intangibles, and one-time charges.

The following commentary compares 1997 actual results with 1996 and 1995 pro forma results, assuming that the Company's drugstore acquisitions had occurred as of the beginning of 1995, to provide a more meaningful evaluation of operating performance.

1997 COMPARED WITH 1996

Throughout 1997, Eckerd was heavily involved in the integration of the former Thrift, Fay's, and Kerr drugstore operations into the Eckerd nameplate and format. Despite the significant integration activities, FIFO operating earnings increased $64 million to $424 million, an increase of 17.8 per cent compared with 1996 results. The increase was driven primarily by sales volumes and reduced SG&A expenses from the combined operations. Sales growth was strong the entire year, increasing by 7.4 per cent on a comparable store basis (those stores open at least one year), and was strongest in the Southeast and Sunbelt regions, which comprise historical Eckerd markets. Sales improvement was driven by a 16.1 per cent increase in prescription drug sales, which represented 53 per cent of total sales for the year. Prescription drug sales continue to be positively impacted by growth in managed care sales, which exceed 80 per cent of the prescription business.

FIFO gross margin increased by $229 million in 1997 but declined by 20 basis points as a per cent of sales. The decline in gross margin per cent was primarily attributable to grand reopening promotional activities for the converted regions and the growth in the managed care prescription business, which carries lower margins. In 1997, Eckerd recorded a $32 million LIFO charge compared with a pro forma charge of $23 million in 1996, reflecting continued inflation in prescription drug prices. SG&A expenses were well leveraged as a result of higher sales volumes and the elimination of duplicate support functions. For the year, SG&A expenses improved by 40 basis points as a per cent of sales. Both gross margin and SG&A expenses were positively impacted by synergies arising from consolidation of the drugstore operations.

1996 COMPARED WITH 1995

FIFO operating earnings increased in 1996, principally as a result of strong sales growth. Sales for the year grew at a 10.3 per cent rate, driven primarily by managed care prescription sales growth. Drugstore gross margin increased on a dollar basis in 1996, primarily as a result of higher sales levels, but decreased as a per cent of sales, primarily as a result of declines in managed care prescription gross margins. There was no LIFO impact in 1995. SG&A expenses were well leveraged in 1996 compared with 1995.

md&a (CONTINUED)

JCPENNEY INSURANCE

($ in millions)	1997	1996	1995
Revenue	$ 928	$ 818	$ 680
% increase	13.4	20.3	22.1
Operating earnings	$ 214	$ 186	$ 157
% increase	15.1	18.5	23.6
% of revenue	23.1	22.7	23.1

JCPenney Insurance continues to be a solid contributor to the Company's operating performance. In 1997, revenues grew to $928 million compared with $818 million in 1996 and $680 million in 1995. The revenue growth over the three-year period is primarily attributable to successfully maintaining and enhancing marketing relationships with third-party businesses throughout the United States and Canada, principally banks, oil companies, and retailers. Revenue and operating earnings have been enhanced by growth in the non-insurance segment, which consists of marketing membership discount services through existing business relationships. Operating earnings increased to $214 million in 1997 compared with $186 million in 1996 and $157 million in 1995. The increase in operating earnings continued to be driven by strong growth in revenue.

NET INTEREST EXPENSE AND CREDIT OPERATIONS

($ in millions)	1997	1996	1995
Finance charge revenue[1]	$ (673)	$ (641)	$ (631)
Credit costs[1]	639	560	489
Interest expense, net	581	359	325
Net interest and credit costs	$ 547	$ 278	$ 183
Delinquency rate	3.9%	3.7%	3.3%

(1) Includes amounts related to the Company's retained interest in JCP Master Credit Card Trust.

Net interest and credit costs increased in 1997 compared with 1996, due principally to bad debt on customer receivables and interest expense for the drugstore acquisitions. Finance charge revenue increased in 1997 compared with 1996 levels, primarily as a result of modifications that were made to credit terms in selected states. These increases were more than offset by bad debt expense. In 1997, bad debt expense, including additions to reserves for future bad debt losses, was $343 million compared with $267 million in 1996. In both 1997 and 1996, bad debt expense was negatively impacted by continuing high levels of delinquencies and personal bankruptcies. Interest expense in 1997 exceeded the prior year, primarily as a result of $3.0 billion of debt that was issued in connection with the Eckerd acquisition.

In 1996, finance charge revenue was relatively flat with 1995 levels. Credit operating costs increased as a result of rising bad debt expense. The increase in interest expense in 1996 compared with 1995 was generally related to higher levels of debt required to finance increases in working capital, drugstore acquisitions, and capital spending for JCPenney stores.

INCOME TAXES

The effective income tax rate in 1997 increased to 38.8 per cent compared with 37.9 per cent in 1996 and 37.5 per cent in 1995. The increase in 1997 was primarily related to amortization of goodwill associated with the drugstore acquisitions, which provides no tax benefit.

FINANCIAL CONDITION

The Company's goal is to maintain a strong balance sheet in order to provide financial flexibility and increase stockholder value. The Company's financial condition has remained strong and market capitalization has increased to $18.1 billion, an increase of $6.8 billion, or 60 per cent, over the past two years. Total stockholder return, which includes price appreciation and dividends, was 47 per cent in 1997. The Company's strong financial condition has allowed a consistent increase in the dividend on common stock, including an increase to an indicated annual rate of $2.18 which was approved by the Board of Directors in March 1998. The dividend has increased in each of the last six years, over which time it has increased in excess of 65 per cent.

MERCHANDISE INVENTORY

($ in millions)	1997	1996	1995
JCPenney stores and catalog	$4,239	$4,311	$3,815
Eckerd drugstores	2,148	1,676	346
Less LIFO reserves	(225)	(265)	(226)
Total	$6,162	$5,722	$3,935

Merchandise inventory levels for JCPenney stores and catalog declined by 1.7 per cent from the prior year, primarily as a result of better management of the merchandise procurement process. Inventory levels increased by 13 per cent in 1996 compared with 1995, partly as a result of the addition of three million square feet of

md&a (CONTINUED)

gross selling space. Inventory levels for Eckerd in 1997 increased by 28 per cent compared to 1996. The increase was primarily related to conversion activities and the addition of 1.0 million square feet of new space. The increase from 1995 levels was principally the result of the Eckerd and Fay's acquisitions.

INTANGIBLE ASSETS

Intangible assets consist principally of favorable lease rights, prescription files, software, trade name, and goodwill. They represent the excess of the purchase price over the fair value of assets received in the Company's drugstore acquisitions. The increase from 1996 levels is related to the completion of the Eckerd acquisition in February 1997.

DEBT TO CAPITAL

	1997	1996	1995
Debt to capital per cent	60.4%	64.5%*	52.6%

* Upon completion of the Eckerd acquisition, the Company's debt to capital per cent decreased to 60.1 per cent.

The Company issued $3.0 billion of long term debt in the first quarter of 1997, which represented a conversion of short term debt that had been issued in connection with the Eckerd acquisition. The average effective interest rate on this debt was 7.5 per cent and the average maturity was 30 years. With the issuance of this debt, the Company's average interest rate decreased by about 10 basis points and the average maturity was extended, capitalizing on a favorable interest rate environment. Total debt, both on and off-balance-sheet, was $11,237 million at the end of 1997 compared with $10,807 million and $6,542 million at the end of fiscal 1996 and 1995, respectively. The increase in debt over the past two years is primarily related to the acquisition of Eckerd and the growth of the drugstore operation.

During the last two years, the Company issued 28.4 million shares of common stock in connection with its drugstore acquisitions. In addition, the Company acquired 7.5 million shares of its common stock in 1996 for $366 million, as part of a share purchase program. The Company has the authority to acquire an additional 10 million shares under previously approved share purchase programs.

The Company's debt ratings did not change during the year (see Supplemental Data, page 34, for current ratings) and continue to be among the highest in the retail industry.

CAPITAL EXPENDITURES

($ in millions)	1997	1996	1995
JCPenney stores and catalog	$443	$636	$615
Eckerd drugstores	341	103	53
Other	26	51	81
Total	$810	$790	$749

Capital expenditures in 1997 increased over 1996 and 1995 levels, due primarily to growth in the Company's drugstore operations. Eckerd added 272 new or acquired drugstores and relocated an additional 127 drugstores in 1997, primarily in the Southeast and Sunbelt areas of the country. In 1997 and 1996, the Company committed approximately $200 million per year to the modernization and updating of existing JCPenney store locations. 1995 reflects $173 million for the purchase of seven department stores in the Washington, D.C. area. It is anticipated that capital spending in 1998 will total approximately $500 million for JCPenney stores and catalog, with the majority of the spending related to new and relocated stores and improvements to existing space. Capital spending for Eckerd in 1998 is expected to total approximately $250 million as the Company continues to expand its drugstore operation and to relocate drugstores to more profitable freestanding locations.

CASH FLOW

The Company expects to generate sufficient cash flow internally to meet substantially all of its cash flow requirements for working capital, capital expenditures, and dividends in the foreseeable future.

YEAR 2000

The Company has initiated actions to address the year 2000 issue. It is expected that compliance work will be substantially completed by the end of 1998. Total costs associated with these efforts, which are being expensed as incurred, have not had, and are not expected to have, a material impact on the Company's financial results.

INFLATION AND CHANGING PRICES

Inflation and changing prices have not had a significant impact on the Company in recent years due to low levels of inflation.

CONSOLIDATED statements OF income

J. C. PENNEY COMPANY, INC. AND SUBSIDIARIES

For the Year ($ in millions except per share data)	1997	1996	1995
REVENUE			
Retail sales	$29,618	$22,653	$20,562
Insurance revenue	928	818	680
Total revenue	30,546	23,471	21,242
COSTS AND EXPENSES			
Cost of goods sold, occupancy, buying, and warehousing costs	21,379	16,058	14,352
Selling, general, and administrative expenses	6,456	5,262	4,923
Costs and expenses of insurance operations	714	632	523
Other unallocated	(39)	(45)	(80)
Net interest expense and credit operations	547	278	183
Amortization of intangibles and minority interest	117	23	—
Restructuring and business integration expenses, net	447	354	—
Total costs and expenses	29,621	22,562	19,901
INCOME BEFORE INCOME TAXES	925	909	1,341
Income taxes	359	344	503
NET INCOME	$ 566	$ 565	$ 838

EARNINGS PER COMMON SHARE

(In millions, except per share data)

1997	Income	Shares	EPS
Net income	$ 566		
Less: preferred stock dividends	(40)		
Basic EPS	526	247	$ 2.13
Stock options and convertible preferred stock	36	21	
Diluted EPS	$ 562	268	$ 2.10
1996			
Net income	$ 565		
Less: preferred stock dividends	(40)		
Basic EPS	525	226	$ 2.32
Stock options and convertible preferred stock	35	22	
Diluted EPS	$ 560	248	$ 2.25
1995			
Net income	$ 838		
Less: preferred stock dividends	(41)		
Basic EPS	797	226	$ 3.52
Stock options and convertible preferred stock	33	23	
Diluted EPS	$ 830	249	$ 3.33

See Notes to Consolidated Financial Statements on pages 23 through 30.

CONSOLIDATED STATEMENTS OF

stockholders' equity

J. C. PENNEY COMPANY, INC. AND SUBSIDIARIES

($ in millions)	Common Stock	Preferred Stock	Guaranteed LESOP Obligation	Reinvested Earnings	Total Stockholders' Equity
January 28, 1995	$1,030	$630	$ (307)	$4,262	$5,615
Comprehensive income					
Net income				838	838
Net unrealized change in debt and equity securities				82	82
Currency translation adjustments				(10)	(10)
Total comprehensive income				910	910
Dividend declared				(474)	(474)
Common stock issued	113				113
Common stock retired	(31)			(301)	(332)
Preferred stock retired		(27)			(27)
LESOP payment			79		79
January 27, 1996	1,112	603	(228)	4,397	5,884
Comprehensive income					
Net income				565	565
Net unrealized change in debt and equity securities				(18)	(18)
Currency translation adjustments				(3)	(3)
Total comprehensive income				544	544
Dividend declared				(511)	(511)
Common stock issued	350				350
Common stock retired	(46)			(320)	(366)
Preferred stock retired		(35)			(35)
LESOP payment			86		86
January 25, 1997	1,416	568	(142)	4,110	5,952
Comprehensive income					
Net income				566	566
Net unrealized change in debt and equity securities				14	14
Currency translation adjustments				(3)	(3)
Total comprehensive income				577	577
Dividend declared				(573)	(573)
Common stock issued	1,350				1,350
Preferred stock retired		(42)			(42)
LESOP payment			93		93
January 31, 1998	$2,766	$526	$ (49)	$4,114	$7,357

The accumulated balances for net unrealized changes in debt and equity securities were $66, $52, and $70, and for currency translation adjustments were ($18), ($15), and ($12) at the end of 1997, 1996, and 1995, respectively.

See Notes to Consolidated Financial Statements on pages 23 through 30.

CONSOLIDATED **balance sheets**

J. C. PENNEY COMPANY, INC. AND SUBSIDIARIES

ASSETS ($ in millions)	1997	1996
CURRENT ASSETS		
Cash (including short term investments of $208 and $131)	$ 287	$ 131
Retained interest in JCP Master Credit Card Trust	1,073	1,111
Receivables, net (bad debt reserves of $105 and $77)	3,819	4,646
Merchandise inventory (including LIFO reserves of $225 and $265)	6,162	5,722
Prepaid expenses	143	102
TOTAL CURRENT ASSETS	11,484	11,712
Property and equipment		
Land and building	2,993	2,931
Furniture and fixtures	4,089	3,710
Leasehold improvements and other	1,192	1,074
Accumulated depreciation	(2,945)	(2,701)
Property and equipment, net	5,329	5,014
Investments, primarily insurance operations	1,774	1,605
Deferred insurance policy acquisition costs	752	666
Goodwill and other intangible assets, net (amortization of $108 and $6)	2,940	1,861
Other assets	1,214	1,230
	$23,493	$22,088

LIABILITIES AND STOCKHOLDERS' EQUITY ($ in millions)	1997	1996
CURRENT LIABILITIES		
Accounts payable and accrued expenses (including trade payables of $1,551 and $1,558)	$ 4,155	$ 3,738
Short term debt	1,417	3,950
Current maturities of long term debt	449	250
Deferred taxes	116	28
TOTAL CURRENT LIABILITIES	6,137	7,966
Long term debt	6,986	4,565
Deferred taxes	1,325	1,362
Insurance policy and claims reserves	872	781
Other liabilities (including bank deposits of $724 in 1996)	816	1,462
STOCKHOLDERS' EQUITY		
Preferred stock	526	568
Guaranteed LESOP obligation	(49)	(142)
Common stock	2,766	1,416
Reinvested earnings	4,114	4,110
TOTAL STOCKHOLDERS' EQUITY	7,357	5,952
	$23,493	$22,088

See Notes to Consolidated Financial Statements on pages 23 through 30.

CONSOLIDATED statements OF cash flows

J. C. PENNEY COMPANY, INC. AND SUBSIDIARIES

For the Year ($ in millions)	1997	1996	1995
OPERATING ACTIVITIES			
Net income	$ 566	$ 565	$ 838
Gain on the sale of consumer banking assets	(52)	—	—
Restructuring and business integration expenses	371	310	—
Depreciation and amortization, including intangibles	584	381	341
Deferred taxes	1	(18)	144
Change in cash from:			
Customer receivables	215	(172)	40
Inventory, net of trade payables	(395)	(521)	(55)
Other assets and liabilities, net	(72)	(163)	95
	1,218	382	1,403
INVESTING ACTIVITIES			
Capital expenditures	(824)	(704)	(717)
Proceeds from the sale of consumer banking assets, net	276	—	—
Eckerd acquisition	—	(1,776)	—
Purchases of investment securities	(401)	(471)	(583)
Proceeds from sales of investment securities	252	493	420
	(697)	(2,458)	(880)
FINANCING ACTIVITIES			
Change in short term debt	(2,533)	2,401	(583)
Issuance of long term debt	2,990	596	991
Payments of long term debt	(343)	(133)	(244)
Common stock issued, net	121	68	50
Common stock purchased and retired	—	(366)	(335)
Preferred stock retired	(42)	(35)	(27)
Dividends paid, preferred and common	(558)	(497)	(463)
	(365)	2,034	(611)
NET INCREASE/(DECREASE) IN CASH AND SHORT TERM INVESTMENTS	156	(42)	(88)
Cash and short term investments at beginning of year	131	173	261
CASH AND SHORT TERM INVESTMENTS AT END OF YEAR	$ 287	$ 131	$ 173

SUPPLEMENTAL CASH FLOW INFORMATION			
Interest paid	$ 564	$ 390	$ 355
Interest received	45	60	54
Income taxes paid	225	356	409

Non-Cash Transactions. Since February 1995, the Company has expanded its drugstore portfolio through acquisitions that were accomplished in whole or in part through the exchange of common stock. See footnote 2 for discussion of the acquisition transactions.

See Notes to Consolidated Financial Statements on pages 23 through 30.

company statement ON FINANCIAL INFORMATION

The Company is responsible for the information presented in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and are considered to present fairly in all material respects the Company's results of operations, financial position, and cash flows. Certain amounts included in the consolidated financial statements are estimated based on currently available information and judgment as to the outcome of future conditions and circumstances. Financial information elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

The Company's system of internal controls is supported by written policies and procedures and supplemented by a staff of internal auditors. This system is designed to provide reasonable assurance, at suitable costs, that assets are safeguarded and that transactions are executed in accordance with appropriate authorization and are recorded and reported properly. The system is continually reviewed, evaluated, and where appropriate, modified to accommodate current conditions. Emphasis is placed on the careful selection, training, and development of professional managers.

An organizational alignment that is premised upon appropriate delegation of authority and division of responsibility is fundamental to this system. Communication programs are aimed at assuring that established policies and procedures are disseminated and understood throughout the Company.

The consolidated financial statements have been audited by independent auditors whose report appears below. This audit was conducted in accordance with generally accepted auditing standards, which include the consideration of the Company's internal controls to the extent necessary to form an independent opinion on the consolidated financial statements prepared by management.

The Audit Committee of the Board of Directors is composed solely of directors who are not officers or employees of the Company. The Audit Committee's responsibilities include recommending to the Board for stockholder approval the independent auditors for the annual audit of the Company's consolidated financial statements. The Committee also reviews the independent auditors' audit strategy and plan, scope, fees, audit results, and non-audit services and related fees; internal audit reports on the adequacy of internal controls; the Company's ethics program; status of significant legal matters; the scope of the internal auditors' plans and budget and results of their audits; and the effectiveness of the Company's program for correcting audit findings. The independent auditors and Company personnel, including internal auditors, meet periodically with the Audit Committee to discuss auditing and financial reporting matters.

Da McKay

Donald A. McKay
Executive Vice President and
Chief Financial Officer

INDEPENDENT auditors' report

To the Stockholders and Board of Directors
of J. C. Penney Company, Inc.:

We have audited the accompanying consolidated balance sheets of J. C. Penney Company, Inc. and Subsidiaries as of January 31, 1998 and January 25, 1997, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three year period ended January 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of J. C. Penney Company, Inc. and Subsidiaries as of January 31, 1998 and January 25, 1997, and the results of their operations and their cash flows for each of the years in the three year period ended January 31, 1998 in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

KPMG Peat Marwick LLP
Dallas, Texas
February 26, 1998

notes TO CONSOLIDATED FINANCIAL STATEMENTS

1 SUMMARY OF ACCOUNTING POLICIES

Basis of presentation. Certain prior year amounts have been reclassified to conform with the current year presentation.

Basis of consolidation. The consolidated financial statements present the results of J. C. Penney Company, Inc. and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Definition of fiscal year. The Company's fiscal year ends on the last Saturday in January. Fiscal 1997 ended January 31, 1998; fiscal 1996 ended January 25, 1997; and fiscal 1995 ended January 27, 1996. Fiscal 1997 was a 53-week year; all other years presented are 52 weeks. The accounts of JCPenney Insurance are on a calendar year basis.

Retail sales. Retail sales include merchandise and services, net of returns, and exclude all taxes.

Earnings per common share. Basic earnings per share are computed by dividing net income less dividend requirements on the Series B LESOP convertible preferred stock, net of tax, by the weighted average common stock outstanding. Diluted earnings per share assume the exercise of stock options and the conversion of the Series B LESOP convertible preferred stock into the Company's common stock. Additionally, it assumes adjustment of net income for the additional cash requirements, net of tax, needed to fund the LESOP debt service resulting from the assumed replacement of the preferred dividends with common stock dividends.

Cash and short term investments. Cash invested in instruments with remaining maturities of three months or less from time of investment is reflected as short term investments.

Accounts receivable. The Company's policy is to write off accounts when the scheduled minimum payment has not been received for six consecutive months, if any portion of the balance is more than 12 months past due, or if it is otherwise determined that the customer is unable to pay. Collection efforts continue subsequent to write-off, and recoveries are applied as a reduction of bad debt losses.

Merchandise inventory. Substantially all merchandise inventory is valued at the lower of cost (last-in, first-out) or market, determined by the retail method. The Company applies internally developed indices to measure increases and decreases in its own retail prices.

Depreciation and amortization. The cost of buildings and equipment is depreciated on a straight line basis over the estimated useful lives of the assets. The primary useful life for buildings is 50 years, and ranges between three and 20 years for furniture and equipment. Improvements to leased premises are amortized over the expected term of the lease or their estimated useful lives, whichever is shorter. Intangible assets, other than trade name, are amortized over periods ranging from five to seven years. Trade name and goodwill are amortized over 40 years.

Impairment of assets. The Company assesses the recoverability of asset values, including goodwill and other intangible assets, on a periodic basis by comparing expected cashflows to net book value.

Deferred charges. Expenses associated with the opening of new stores are written off in the year of the store opening. Deferred policy acquisition costs, principally marketing costs and commissions incurred by JCPenney Insurance to secure new insurance policies, are amortized over the expected premium-paying period of the related policies.

Investments. The Company's investments are classified as available-for-sale and are carried at fair value. Changes in unrealized gains and losses are recorded directly to stockholders' equity, net of applicable income taxes. Realized gains and losses are determined on a first-in, first-out basis.

notes TO CONSOLIDATED FINANCIAL STATEMENTS

Insurance policy and claims reserves. Liabilities established by JCPenney Insurance for future policy benefits are computed using a net level premium method including assumptions as to investment yields, mortality, morbidity, and persistency based on the Company's experience.

Advertising. Costs for newspaper, television, radio, and other media advertising are expensed as incurred. Catalog book preparation and printing costs, which are considered direct response advertising, are charged to expense over the life of the catalog, not to exceed six months.

Derivative financial instruments. The Company selectively uses non-leveraged, off-balance-sheet derivative instruments to manage its market and interest rate risk, and does not hold derivative positions for trading purposes. Current derivative positions consist of non-leveraged, off-balance-sheet interest rate swaps which are accounted for by recording the net interest received or paid as an adjustment to interest expense on a current basis. Gains or losses resulting from market movements are not recognized.

Use of estimates. The preparation of the Company's consolidated financial statements in conformity with generally accepted accounting principles requires that management estimate certain amounts that are reported. Actual results may differ from these estimates.

New accounting rules. The Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 128, *Earnings Per Share*, in April 1997, SFAS No. 130, *Reporting Comprehensive Income*, and SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information*, in June 1997, and SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*, in February 1998. SFAS No. 128 was effective in fiscal 1997, and SFAS's No. 130, No. 131 and No. 132 were adopted by the Company in fiscal 1997; prior year numbers have been restated as required. None of the new rules had a material impact on the Company.

2 DRUGSTORE ACQUISITIONS

In February 1997, the Company completed the acquisition of Eckerd Corporation (Eckerd), a 1,748 unit drugstore chain located primarily in the Southeast and Sunbelt. The acquisition was accomplished through a two-step transaction consisting of a cash tender offer for 50.1 per cent of the outstanding Eckerd common stock (December 1996), followed by the exchange of approximately 23.2 million shares of JCPenney common stock for the remaining 49.9 per cent of Eckerd common stock (February 1997). The total value of the acquisition, including $760 million of Eckerd debt assumed by the Company, was approximately $3.3 billion. The purchase price was allocated to assets acquired and liabilities assumed based on their estimated fair value, and accordingly, the Company recognized intangible assets consisting of favorable lease rights, prescription files, computer software, and trade name. The excess of the purchase price over the estimated fair value of assets acquired and liabilities assumed is classified as goodwill and totaled $2.3 billion at the conclusion of the acquisition.

In October 1996, the Company acquired Fay's Incorporated (Fay's), a 272 unit drugstore chain located primarily in New York state, through the issuance of 5.2 million shares of common stock valued at $278 million and assumption of $75 million of Fay's debt. The excess of the purchase price over the estimated fair value of assets acquired and liabilities assumed totaled $220 million and is classified as goodwill.

Both the Eckerd and Fay's acquisitions were accounted for under the purchase method, and accordingly, the results of operations of both Eckerd and Fay's are included in the Company's results of operations since the respective dates of acquisition.

The following unaudited pro forma condensed statements of operations give effect to the Eckerd and Fay's acquisitions as if the transactions occurred at the beginning of each of the periods presented.

	52 Weeks Ended			
($ in millions except per share data)	Jan. 25, 1997		Jan. 27, 1996	
	Reported	Pro forma	Reported	Pro forma
Retail sales	$22,653	$28,028	$20,562	$26,442
Net income	565	519	838	766
Per share, diluted	2.25	1.91	3.33	2.78

notes TO CONSOLIDATED FINANCIAL STATEMENTS

3
RETAINED INTEREST IN JCP MASTER CREDIT CARD TRUST

The Company previously transferred portions of its customer receivables to a trust which, in turn, sold certificates representing undivided interests in the trust in public offerings. As of January 31, 1998, $652 million of the certificates were outstanding and the balance of the receivables in the trust was $1,771 million. The Company owns the remaining undivided interest in the trust not represented by the certificates and will continue to service all receivables for the trust. The Company has made available to the trust $78 million in irrevocable letters of credit should such funds be required. None of the letters of credit was in use as of January 31, 1998.

The retained interest in the trust is accounted for in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and is classified as available-for-sale. The carrying value of $1,073 million in 1997 and $1,111 million in 1996 includes a valuation reserve of $40 million and $28 million, respectively. Due to the short-term nature of this investment, the carrying value approximates fair value.

4
INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

($ in millions)	Amortized Cost	Fair Value
Fixed income securities	$1,126	$1,167
Asset-backed certificates	431	459
Other	113	148
Total	$1,670	$1,774

Investments. The Company's investments are recorded at fair value based on quoted market prices and consist principally of fixed income and equity securities, substantially all of which are held by JCPenney Insurance, and asset-backed certificates. The majority of the fixed income securities mature during the next ten years. Unrealized gains and losses are included in stockholders' equity, net of tax, and are shown as a component of comprehensive income.

Financial Liabilities. Financial liabilities are recorded in the consolidated balance sheets at historical cost, which approximates fair value. These values are not necessarily indicative of actual market transactions. The fair value of long term debt, excluding capital leases, is based on the interest rate environment and the Company's credit rating.

Derivative Financial Instruments. Current derivative positions consist of two offsetting interest rate swaps, which were entered into in connection with the issuance of asset-backed certificates in 1990. These swaps help to protect certificate holders by reducing the possibility of an early amortization of the principal. The impact of these interest rate swaps is not material.

Concentrations of Credit Risk. The Company has no significant concentrations of credit risk. Individual accounts comprising accounts receivable are widely dispersed and investments are well diversified.

5
SHORT TERM DEBT

($ in millions)	1997	1996
Commercial paper	$1,417	$2,050
Bank debt	—	1,900
Total	$1,417	$3,950
Average interest rate at year end	5.6%	5.5%

Committed bank credit facilities available to the Company as of January 31, 1998 totaled $3.0 billion. The facilities, as amended and restated in 1997, support the Company's short term borrowing program and are comprised of a $1.5 billion, 364-day revolver and a $1.5 billion, five-year revolver. The 364-day revolver includes a $750 million seasonal credit line for the August to January period, allowing the Company to match its seasonal borrowing requirements. None of the borrowing facilities was in use as of January 31, 1998. In the first quarter of 1997, the Company paid off and retired the acquisition facility used in connection with the Eckerd acquisition.

Also, the Company has $910 million of uncommitted credit lines in the form of letters of credit with seven banks to support its direct import merchandise program. As of January 31, 1998, $293 million of letters of credit issued by the Company were outstanding.

notes TO CONSOLIDATED FINANCIAL STATEMENTS

6 LONG TERM DEBT

($ in millions)	Jan. 31, 1998 Avg Rate	Balance	Jan. 25, 1997 Avg Rate	Balance
Notes and debentures				
Due 0-5 years	7.1%	$2,600	7.3%	$1,425
Due 6-10 years	7.8%	1,760	8.0%	1,605
Due 11-15 years	8.0%	325	7.6%	425
Due 16-20 years	7.7%	780	7.5%	492
Due 21-30 years	7.5%	887	7.2%	550
Thereafter	7.5%	900	—	—
Total notes and debentures	7.5%	7,252	7.6%	4,497
Guaranteed LESOP notes, due 1998		49		142
Capital lease obligations and other		134		176
Less current maturities		(449)		(250)
Total long term debt		$6,986		$4,565

During 1997, the Company issued $3.0 billion of debt. These notes and debentures had an average maturity of 30 years and an average interest rate of 7.5 per cent. In 1996, the Company issued $600 million in notes with an average maturity of 20 years and an average interest rate of 7.3 per cent.

7 CAPITAL STOCK

As of January 31, 1998, there were approximately 58 thousand stockholders of record. On a combined basis, the Company's savings plans, including the Company's leveraged employee stock ownership plan (LESOP), held 46.6 million shares of common stock or 17.3 per cent of the Company's common shares after giving effect to the conversion of preferred stock.

COMMON STOCK

1,250 million shares, par value $.50 are authorized; 251 million shares were issued and outstanding as of January 31, 1998, and 224 million shares were issued and outstanding as of January 25, 1997.

PREFERRED STOCK

In connection with the 1988 adoption of the LESOP, 25 million shares of Series B LESOP convertible preferred stock, par value $.01 were authorized; 900 thousand shares were issued and outstanding as of January 31, 1998, and one million shares were issued and outstanding as of January 25, 1997. Each share is convertible into 20 shares of the Company's common stock at a conversion price of $30 per common share. Dividends are cumulative and are payable semi-annually at a rate of $2.37 per common share equivalent, a yield of 7.9 per cent. Shares may be redeemed at the option of the Company or the LESOP under certain circumstances. The redemption price may be satisfied in cash or common stock or a combination of both, at the Company's sole discretion.

PREFERRED STOCK PURCHASE RIGHTS

In 1990, the Board of Directors declared a dividend distribution of one preferred stock purchase right on each outstanding share of common stock in connection with the redemption of the Company's then existing preferred stock purchase rights program. These rights entitle the holder to purchase, for each right held, 1/400 of a share of Series A junior participating preferred stock at a price of $140. The rights are exercisable by the holder upon the occurrence of certain events and are redeemable by the Company under certain circumstances as described by the rights agreement.

8 STOCK-BASED COMPENSATION

As of January 31, 1998, the Company had a single stock-based compensation plan which was approved by stockholders in 1997 and which reserves 14 million shares of common stock for issuance to plan participants upon the exercise of options over the 10 year term of the plan. Approximately 2,000 associates, generally consisting of selected management associates, are eligible to participate. Shares acquired under the plan generally have a two year retention requirement. Both the number of shares and the exercise price, which is based on the average market price, are fixed at the date of grant and have a maximum term of 10 years. The plan also provides for grants of stock options and stock awards to members of the Board of Directors not otherwise employed by the Company. Shares acquired by such directors are not transferable until a director terminates service.

notes TO CONSOLIDATED FINANCIAL STATEMENTS

The Company accounts for stock-based compensation under the provisions of APB No. 25, *Accounting for Stock Issued to Employees*. Accordingly, net income and earnings per share shown in the consolidated statements of income appearing on page 18 do not reflect any compensation cost for the Company's fixed stock options. In accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*, the fair value of each fixed option granted is estimated on the date of grant using the Black-Scholes option pricing model, with the following assumptions:

	1997	1996	1995
Dividend yield	4.0%	3.9%	3.9%
Expected volatility	21.3%	22.3%	21.9%
Risk-free interest rate	6.3%	5.6%	7.0%
Expected option term	6 years	5 years	5 years
Fair value per share of options granted	$9.76	$8.88	$8.20
SFAS 123 compensation expense (millions)	$11	$11	$11

The effect on earnings per share of recording compensation expense under SFAS No. 123 was a reduction of about four cents per share in each of the years presented.

The Company records compensation expense for stock and restricted stock awards granted under the plan, if any, at the date of grant or over the vesting period. Compensation expense for stock awards was not material in any year presented.

The following table summarizes the status of the Company's fixed stock option plans as of January 31, 1998, January 25, 1997, and January 27, 1996:

	1997	1996	1995
Options (in thousands)			
Outstanding	7,427	8,633	8,867
Exercisable	6,272	7,419	7,637
Average price			
Outstanding	$40.07	$36.39	$33.40
Exercisable	$38.52	$34.54	$31.87

9 INTEREST EXPENSE, NET

($ in millions)	1997	1996	1995
Short term debt	$121	$102	$129
Long term debt	527	312	254
Other, net*	(67)	(55)	(58)
Interest expense, net	$581	$359	$325

* Includes $34 in each year for interest income from the Company's investment in asset-backed certificates.

10 LEASE COMMITMENTS

The Company conducts the major part of its operations from leased premises that include retail stores, catalog fulfillment centers, warehouses, offices, and other facilities. Almost all leases will expire during the next 20 years; however, most leases will be renewed or replaced by leases on other premises. Rent expense for real property operating leases totaled $541 million in 1997, $333 million in 1996, and $281 million in 1995, including contingent rent based on sales of $72 million, $48 million, and $36 million for the three years, respectively.

The Company also leases data processing equipment and other personal property under operating leases of primarily three to five years. Rent expense for personal property leases was $126 million in 1997, and $106 million in both 1996 and 1995.

Future minimum lease payments for noncancelable operating and capital leases and subleases as of January 31, 1998 were:

($ in millions)	Operating	Capital
1998	$ 431	$13
1999	389	13
2000	354	12
2001	297	13
2002	274	9
Thereafter	1,931	15
Total minimum lease payments	$3,676	$75
Present value	$2,250	$64
Weighted average interest rate	10%	10%

The minimum lease payments are shown net of estimated executory costs, which are principally real estate taxes, maintenance, and insurance.

11 ADVERTISING COSTS

Advertising costs consist principally of newspaper, television, radio, and catalog book costs. In 1997, the total cost of advertising was $977 million compared with $988 million in 1996, and $969 million in 1995. The consolidated balance sheets include deferred catalog book costs of $89 million as of January 31, 1998 and $98 million as of January 25, 1997, which are included in other assets.

12 RETIREMENT PLANS

The Company's retirement plans consist principally of a noncontributory pension plan, a noncontributory supplemental retirement program for certain management associates, a contributory medical and dental plan, and a savings plan, including a 401(k) plan and an employee stock ownership plan. Pension plan assets are invested in a balanced portfolio of equity, including international, and debt securities managed by third party investment managers. In addition, Eckerd has a noncontributory pension plan. The cost of these programs and the December 31 balances of plan assets and obligations are shown below:

EXPENSE

($ in millions)	1997	1996	1995
Pension and health care:			
Service cost	$ 68	$ 73	$ 47
Interest cost	200	186	171
Actual return on assets	(488)	(386)	(464)
Net amortization and deferral	248	174	300
	28	47	54
Savings plan expense	71	56	53
Total retirement plans	$ 99	$ 103	$ 107

ASSUMPTIONS

	1997	1996	1995
Discount rate	7.25%	8.0%	7.25%
Expected return on plan assets	9.5%	9.5%	9.5%
Salary progression rate	4.0%	4.0%	4.0%
Health care trend rate	7.0%	7.0%	9.0%

ASSETS AND OBLIGATIONS

PENSION PLANS*

($ in millions)	1997	1996
Accumulated benefit obligation	$2,373	$1,895
Projected benefit obligation		
Beginning of year	$2,187	$2,183
Service and interest cost	243	226
Actuarial (gain)/loss	400	(181)
Benefits paid	(210)	(130)
Amendments and other	129	89
End of year	2,749	2,187
Fair value of plan assets		
Beginning of year	2,735	2,292
Company contributions	29	139
Net gains/(losses)	510	434
Benefits paid	(210)	(130)
End of year	3,064	2,735
Excess fair value over projected benefits	315	548
Transition asset, net of gains and prior service cost (unrecognized)	125	23
Prepaid pension cost	$ 440	$ 571

* Includes supplemental retirement plan.

MEDICAL AND DENTAL

	1997	1996
Accumulated benefit obligation	$ 326	$ 291
Net unrecognized losses	13	45
Net medical and dental liability	$ 339	$ 336

A one per cent change in the health care trend rate would change the accumulated benefit obligation and expense by approximately $24 million and $2 million, respectively.

notes TO CONSOLIDATED FINANCIAL STATEMENTS

13
RESTRUCTURING AND BUSINESS INTEGRATION EXPENSES, NET

During 1997, the Company recorded restructuring and business integration expenses totaling $447 million on a pre-tax basis, or $1.02 per diluted share. These expenses consisted principally of costs for the Company's voluntary early retirement program, integration of the drugstore operations, restructuring of corporate support functions, and closing of underperforming department stores and support facilities. These costs were partially offset by gains resulting from the sale of certain business operations.

During 1996, the Company recorded costs totaling $354 million on a pre-tax basis, or 92 cents per share, which were principally related to drugstore acquisitions, including the Company's agreement with the Federal Trade Commission to divest certain drugstores in North Carolina and South Carolina.

These expenses consisted of the following:

($ in millions)	1997	1996
Voluntary early retirement program	$ 151	$ —
Drugstore integration	148	323
Corporate restructuring	66	11
Unit closings and other	145	20
Gain on the sale of business units	(63)	
	447	354
Income taxes	(174)	(126)
Restructuring and business integration expenses, net	$ 273	$ 228

14
TAXES

Deferred tax assets and liabilities reflected on the Company's consolidated balance sheet as of January 31, 1998 were measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The major components of deferred tax (assets)/liabilities as of January 31, 1998 and January 25, 1997 were as follows:

TEMPORARY DIFFERENCES ($ in millions)	1997	1996
Depreciation and amortization	$ 977	$ 932
Leases	339	318
Restructuring and business integration expenses	(139)	(73)
Other including comprehensive income	264	165
	1,441	1,342
Valuation allowance	–	48[1]
Total[2]	$1,441	$1,390

(1) Offsets deferred tax asset related to Eckerd operating loss carryforwards which were subsequently utilized.

(2) Includes deferred taxes related to drugstore acquisitions of $165 in 1997 and $115 in 1996.

INCOME TAX EXPENSE ($ in millions)	1997	1996	1995
Current			
Federal	$319	$321	$306
State and local	39	43	56
	358	364	362
Deferred			
Federal	3	(19)	124
State and local	(2)	(1)	17
	1	(20)	141
Total	$359	$344	$503
Effective tax rate	38.8%	37.9%	37.5%

	Per cent of pre-tax income		
RECONCILIATION OF TAX RATES	1997	1996	1995
Federal income tax at statutory rate	35.0	35.0	35.0
State and local income taxes, less federal income tax benefit	2.8	3.0	3.6
Tax effect of dividends on allocated LESOP shares	(1.3)	(1.3)	(.8)
Tax credits and other	2.3	1.2	(.3)
Total	38.8	37.9	37.5

notes TO CONSOLIDATED FINANCIAL STATEMENTS

15 SEGMENT REPORTING

The Company operates in three business segments: JCPenney stores and catalog, Eckerd drugstores, and JCPenney Insurance. The results of JCPenney stores and catalog are combined. JCPenney stores and catalog generally serve the same customer, have virtually the same mix of merchandise, and the majority of catalog sales are completed in JCPenney stores. Other items are shown in the table below for purposes of reconciling to total Company consolidated amounts.

($ in millions)	Year	Revenue	Operating Earnings	Total Assets	Capital Expenditures	Depreciation and Amortization
JCPenney stores and catalog	1997	$19,955	$1,391	$14,980	$464	$366
	1996	19,506	1,203	14,754	680	325
	1995	18,711	1,206	13,744	689	308
Eckerd drugstores	1997	9,663	392	6,064	341	112
	1996	3,147	130	4,389	103	41
	1995	1,851	81	618	53	26
JCPenney Insurance	1997	928	214	2,283	5	4
	1996	818	186	1,986	7	5
	1995	680	157	1,741	7	3
Total Segments	1997	30,546	1,997	23,327	810	482
	1996	23,471	1,519	21,129	790	371
	1995	21,242	1,444	16,103	749	337
Restructuring and Business Integration Expenses	1997		(447)			
	1996		(354)			
Net Interest and Credit Operations	1997		(547)			
	1996		(278)			
	1995		(183)			
Other	1997		(78)	166		102
	1996		22	959		10
	1995		80	999		4
Total Company	1997	30,546	925	23,493	810	584
	1996	23,471	909	22,088	790	381
	1995	21,242	1,341	17,102	749	341

(1) Total Company operating earnings equals income before income taxes as shown on the Company's consolidated statements of income.

(2) Other operating earnings includes the banking and business services operations, insurance capital gains, real estate operations, amortization of goodwill and other intangible assets, and minority interest.

quarterly data UNAUDITED

J. C. PENNEY COMPANY, INC. AND SUBSIDIARIES

	First		Second		Third		Fourth	
($ in millions except per share data)	1997	1996	1997	1996	1997	1996	1997	1996
Retail sales	$6,481	$4,452	$6,420	$4,507	$7,208	$5,537	$9,509	$8,157
Total revenue	6,705	4,644	6,649	4,708	7,441	5,745	9,751	8,374
LIFO gross margin	1,804	1,340	1,709	1,312	2,038	1,700	2,688	2,243
Earnings before one-time charges, net of tax	140	142	105	93	229	257	365	301
Net income	139	142	90	93	113	236	224	94
Per common share:								
Earnings before one-time charges, net of tax, diluted	0.53	0.57	0.38	0.37	0.85	1.03	1.36	1.20
Net income, diluted	0.53	0.57	0.32	0.37	0.40	0.95	0.85	0.36
Dividend	0.535	0.52	0.535	0.52	0.535	0.52	0.535	0.52
Price range								
High	51 5/8	51 7/8	59	53 3/8	64 1/4	57	68 1/4	54 1/2
Low	44 7/8	45 3/4	45 5/8	47 1/4	54 11/16	49 1/4	53 1/4	46 1/4
Close	45 7/8	49 3/4	57 15/16	49 5/8	56 7/16	52 7/8	67 3/8	47 5/8

FIVE YEAR financial summary

J. C. PENNEY COMPANY, INC. AND SUBSIDIARIES

(In millions except per share data)	1997	1996	1995	1994	1993
Results for the year:					
Total revenue	$30,546	$23,471	$21,242	$20,937	$19,440
Retail sales	29,618	22,653	20,562	20,380	18,983
Per cent increase	30.7	10.2	0.9	7.4	5.4
Earnings before one-time charges, net of tax	839	793	838	1,057	944
Per cent of total revenue	2.7	3.4	3.9	5.0	4.9
Return on beginning stockholders' equity	11.7*	13.5	14.9	19.7	20.1
Net income	566	565	838	1,057	940
Per common share:					
Earnings before one-time charges, net of tax, diluted	3.12	3.17	3.33	4.05	3.55
Net income, diluted	2.10	2.25	3.33	4.05	3.53
Dividends	2.14	2.08	1.92	1.68	1.44
Stockholders' equity	29.16	25.67	24.76	23.45	21.53
Financial position					
Capital expenditures	810	790	749	544	459
Total assets	23,493	22,088	17,102	16,202	14,788
Stockholders' equity	7,357	5,952	5,884	5,615	5,365
Number of common shares outstanding at year end	251	224	224	227	236
Weighted average common shares					
Basic	247	226	226	234	236
Diluted	268	248	249	258	261
Number of employees at year end (In thousands)	260	252	205	202	193

* Assumes the completion of the Eckerd acquisition in beginning equity.

FIVE YEAR operations summary

J. C. PENNEY COMPANY, INC. AND SUBSIDIARIES

	1997	1996	1995	1994	1993
JCPenney stores					
Number of stores					
Beginning of year	1,228	1,238	1,233	1,246	1,266
Openings	34	36	43	29	24
Closings	(59)	(46)	(38)	(42)	(44)
End of year	1,203	1,228	1,238	1,233	1,246
Gross selling space (In million sq. ft.)	118.4	117.2	114.3	113.0	113.9
Sales (In millions)	$ 16,047	$ 15,734	$ 14,973	$ 15,023	$ 14,056
Sales including catalog desks (In millions)	19,089	18,694	17,930	18,048	16,846
Sales per gross square foot	157	159	156	159	146
Catalog					
Number of catalog units					
JCPenney stores	1,199	1,226	1,228	1,233	1,246
Freestanding sales centers and other	554	569	565	568	557
Drugstores	110	107	106	94	101
Total	1,863	1,902	1,899	1,895	1,904
Sales (In millions)	$ 3,908	$ 3,772	$ 3,738	$ 3,817	$ 3,514
Eckerd drugstores					
Number of stores					
Beginning of year	2,699	645	526	506	548
Openings	199*	47	37	46	35
Drugstore acquisitions	200	2,020	97	—	—
Closings	(320)*	(13)	(15)	(26)	(77)
End of year	2,778	2,699	645	526	506
Gross selling space (In million sq. ft.)	27.4	26.4	6.2	4.5	4.6
Sales (In millions)	$ 9,663	$ 3,147	$ 1,851	$ 1,540	$ 1,413
Sales per gross square foot	314	261	253	243	235
JCPenney Insurance (In millions)					
Revenue	$ 928	$ 818	$ 680	$ 557	$ 457
Distribution of revenue					
JCPenney customers	53%	56%	65%	73%	83%
Banks, oil companies, and other customers	47%	44%	35%	27%	17%
Policies, certificates, and memberships in force	13.2	11.3	9.6	7.5	5.8

* Includes 127 drugstore relocations.

supplemental DATA (UNAUDITED)

General. The following information is provided as a supplement to the Company's audited financial statements. Its purpose is to facilitate an understanding of the Company's credit operations, capital structure, and cash flows.

Credit Operations. The following presents the results of the Company's proprietary credit card operation and shows both the net cost of credit in support of the Company's retail businesses and the net cost of credit measured on an all-inclusive, economic basis. The "economic basis" of the cost of credit includes the cost of equity capital in addition to debt used to finance accounts receivable balances. The cost of equity capital is based on the Company's minimum return on equity objective of 16 per cent. The results presented below cover all JCPenney credit card accounts receivable serviced.

PRE-TAX COST OF JCPENNEY CREDIT CARD

($ in millions)	1997	1996	1995
Finance charge revenue	$ (799)	$ (759)	$ (743)
Bad debt expense	396	311	256
Operating expenses (including in-store costs)	237	251	255
Interest expense on debt financing	285	281	278
Total costs	918	843	789
Pre-tax cost of credit – retail operations	119	84	46
Pre-tax cost of equity capital	144	138	137
Pre-tax cost of credit – economic basis	$ 263	$ 222	$ 183
Per cent of JCPenney credit sales	3.0%	2.4%	2.0%

CREDIT SALES

	1997		1996		1995	
(JCPenney stores and catalog)	Amounts (In billions)	Per cent of Eligible Sales	Amounts (In billions)	Per cent of Eligible Sales	Amounts (In billions)	Per cent of Eligible Sales
JCPenney credit card	$ 8.6	43.4	$ 9.1	46.9	$ 9.0	48.4
Third party credit cards	4.7	23.5	4.1	21.2	3.7	19.8
Total	$ 13.3	66.9	$ 13.2	68.1	$ 12.7	68.2

KEY JCPENNEY CREDIT CARD INFORMATION

(In millions, except where noted)	1997	1996	1995
Number of accounts serviced with balances	14.8	17.0	17.0
Total customer receivables serviced	$4,721	$5,006	$4,688
Average customer receivables financed	4,431	4,322	4,258
Average account balances (in dollars)	318	295	275
Average account maturity (months)	4.5	4.5	4.3
90-day delinquencies	3.9%	3.7%	3.3%

Capital structure. The Company's objective is to maintain a capital structure that will assure continuing access to financial markets so that it can, at reasonable cost, provide for future needs and capitalize on attractive opportunities for growth.

The debt to capital ratio shown in the table below includes both debt recorded on the Company's consolidated balance sheet as well as off-balance-sheet debt related to operating leases and the securitization of a portion of the Company's customer accounts receivable (asset-backed certificates).

DEBT TO CAPITAL ($ in millions)	1997	1996	1995
Short term debt, net of cash investments	$ 1,209	$ 3,818	$ 1,168
Long term debt, including current maturities	7,435	4,815	4,080
	8,644	8,633	5,248
Off-balance-sheet debt			
Present value of operating leases	2,250	1,800	1,000
Securitization of accounts receivable, net	343	374	294
Total debt	11,237	10,807	6,542
Consolidated equity	7,357	5,952	5,884
Total capital	$18,594	$16,759	$12,426
Per cent of total debt to capital	60.4%	64.5%*	52.6%

* Upon completion of the Eckerd acquisition, the Company's debt to capital ratio decreased to 60.1 per cent.

The Company builds its capital base according to the different needs and credit characteristics of its customer receivables and its other core retail assets. Customer receivables are highly diversified and predictable financial assets, very different from the core assets of a retailer, which include fixed assets and merchandise inventories.

supplemental DATA (CONTINUED)

Accordingly, the Company finances receivables with more leverage, much like a finance company. The standards for these assets are a debt ratio of approximately 88 per cent and interest coverage of about 1.5 times. Core assets are financed with less leverage and are more comparable to the leverage of non-retail industrial companies with strong credit ratings. The Company's capital structure as of January 31, 1998 was:

($ in millions)	Customer Receivables	Core Assets	Combined
Debt	$ 4,004	$ 7,233	$ 11,237
Equity	572	6,785	7,357
Total capital	$ 4,576	$ 14,018	$ 18,594
Debt to capital per cent	87.5%	51.6%	60.4%

The historical debt to capital per cent and fixed charge coverage for the prior three years, on a separate and combined basis, were:

DEBT TO CAPITAL PER CENT	1997	1996	1995
Combined	60.4	60.1*	52.6
Core assets	51.6	49.8	32.1
Customer receivables	87.5	87.5	87.5

* Assumes completion of the Eckerd acquisition.

FIXED CHARGE COVERAGE	1997	1996	1995
Combined	2.0	2.4	3.4
Core assets	2.4	3.8	6.0
Customer receivables	1.5	1.5	1.5

Financing costs incurred by the Company to finance its operations, including those costs related to off-balance-sheet liabilities, were as follows:

($ in millions)	1997	1996	1995
Interest expense, net	$ 581	$ 359	$ 325
Interest portion of LESOP debt payment	10	17	23
Off-balance-sheet financing costs			
Interest imputed on operating leases	180	110	102
Asset-backed certificates interest	68	68	68
Total	$ 839	$ 554	$ 518

Earnings before interest, taxes, depreciation, and amortization (EBITDA) is a key measure of cash flow generated. Following is a calculation of EBITDA by operating segment on an individual and combined basis (excludes other unallocated):

1997	Stores & Catalog	Drugstores	Insurance	Total Segments
Revenue	$ 19,955	$ 9,663	$ 928	$ 30,546
Operating earnings	1,391	392	214	1,997
Depreciation and amortization	366	112	4	482
Interest and other*	195	97	—	292
EBITDA	$ 1,952	$ 601	$ 218	$ 2,771
as a % of revenue	9.8%	6.2%	23.5%	9.1%
1996				
Revenue	$ 19,506	$ 3,147	$ 818	$ 23,471
Operating earnings	1,203	130	186	1,519
Depreciation and amortization	325	41	5	371
Interest and other*	246	30	—	276
EBITDA	$ 1,774	$ 201	$ 191	$ 2,166
as a % of revenue	9.1%	6.4%	23.3%	9.2%
1995				
Revenue	$ 18,711	$ 1,851	$ 680	$ 21,242
Operating earnings	1,206	81	157	1,444
Depreciation and amortization	308	26	3	337
Interest and other*	313	22	—	335
EBITDA	$ 1,827	$ 129	$ 160	$ 2,116
as a % of revenue	9.8%	7.0%	23.5%	10.3%

* Consists of interest on operating leases and the LESOP, the impact of asset-backed certificates, and finance charge revenue net of credit operating costs.

Credit ratings. Over the years, the Company has maintained one of the highest credit ratings in the retail industry. The Company's objective is to maintain a strong investment grade rating on its senior long term debt and commercial paper. The credit ratings for the Company at year end were:

	Long Term Debt	Commercial Paper
Standard & Poor's Corporation	A	A1
Moody's Investors Service	A2	P1
Fitch Investors Service, Inc.	A	F1

public and environmental AFFAIRS

PUBLIC AFFAIRS

The Company was recognized in 1997 for its community activities by receiving the Corporate Citizenship Award from the National Organization on Disability and the Founder's Award from the National Alliance of Business.

Contributions. In 1997, the Company's charitable contributions totaled $27 million, $24 million of which was in cash contributions. The majority of the grants were directed to local charitable organizations in JCPenney communities nationwide. Priority target issues of concern include:

• Pre-kindergarten through twelfth-grade education. JCPenney conducted two more broadcasts in the "JCPenney Leadership Institute on School Improvement" series to 500 locations nationwide. The Company also funded the "JCPenney Community Education Grants Program" for the second year with $500,000 in grants for ten metropolitan communities around the country. These grants provide funds for schools that seek to enhance educational reform and restructuring efforts.

• Encouraging and promoting volunteerism. JCPenney Golden Rule Awards, in 230 markets, publicly honor community volunteers and support their work with contributions. The James Cash Penney Awards for Community Service provide similar recognition to JCPenney associates for their outstanding volunteer activities. These two programs contributed more than $1.8 million to local charitable organizations.

• United Way. The Company's primary support of health and welfare issues is through its support of local United Ways nationwide. The 1997 United Way campaign raised $17 million in JCPenney associate and unit pledges for nearly 1,000 United Way organizations.

In addition, the Company supports a number of programs promoting physical fitness and wellness and diversity. These programs consist primarily of the following:

PHYSICAL FITNESS AND WELLNESS

• Susan G. Komen Breast Cancer Foundation Race for the Cure. JCPenney continued as the National Presenting Sponsor of the 5K race, held in 77 locales.

• March of Dimes. In more than 100 markets, JCPenney associates, their families, and friends raised more than $855,000 for the prevention and cure of birth defects.

• Children's Miracle Network. Eckerd and its associates raised $1.7 million in 1997, through Company and customer contributions, for Children's Miracle Network, which supports children's hospitals throughout the United States and Canada.

• JCPenney LPGA Skins Game. The 1997 games raised more than $200,000 for the North Texas Easter Seal Society.

• JCPenney Golf Classic. Now in its 21st year, this golf tournament has raised more than $10 million for local Tampa Bay area charities.

• Olympic Job Opportunities Program. Since 1978, JCPenney has employed 90 athletes, allowing potential U.S. Olympic athletes to work toward building a career while having time to train.

DIVERSITY

• Juanita Kreps Award Honoring the Spirit of the American Woman. The Company's sixth annual award honored Katharine Graham for her outstanding accomplishments as a businesswoman.

• Sponsorships. The Company hosted its Ninth Annual Hispanic Designers Model Search. Since 1993, the Company has served as the exclusive retail sponsor of the Essence Awards and continues its major sponsorship of the Alma Awards in cooperation with the National Council of La Raza.

• Supplier Development. JCPenney's program was established in 1972, the same year it became a corporate member of the National Minority Supplier Development Council (NMSDC). In 1996, JCPenney became a founding member of the Women's Business Enterprise National Council. These councils are nationwide links between corporations and minority and women-owned businesses. Purchases from these businesses totaled $362 million and $261 million, respectively. In addition, the Company continued its $1 million investment in the NMSDC's Business Consortium Fund, which makes loans to minority businesses.

public and environmental AFFAIRS (CONTINUED)

ENVIRONMENTAL AFFAIRS

The Company's dedication to doing business in a responsible manner includes the commitment to make environmental, health, and safety considerations an important factor in corporate decision making and policy. That policy is being implemented primarily through the thoughtful usage of lighting, generated power, merchandise packaging, recycling and trash disposal, and through the Company's adoption of safety related programs.

Copies of *JCPenney Community Partners*, the Company's social responsibility report, and JCPenney's *Matters of Principle: JCPenney and Environmental Responsibility*, including the Company's Statement of Environmental Principles, may be obtained as indicated on page 38 of this Annual Report. Also, please visit *www.jcpenney.com* for more specific information regarding the Company's public affairs.

SUPPLIER LEGAL COMPLIANCE

JCPenney has a comprehensive and effective program for promoting compliance with labor and other laws in the factories used by its suppliers in the United States and abroad. This program is described in *The JCPenney Supplier Legal Compliance Program*, which may be obtained as indicated on page 38 of this Annual Report.

EQUAL EMPLOYMENT OPPORTUNITY

The Company adheres to a policy of equal employment opportunity. The following employment information summary represents associates of J. C. Penney Company, Inc. and subsidiaries, excluding associates in Canada, Chile, Mexico, and Puerto Rico. The information provided delineates minority and female representation in major job categories.

	Total Employed		Per cent Female		Per cent Minority	
Employment information	1997	1993*	1997	1993*	1997	1993*
Officials, managers and professionals	30,123	19,205	47.6	47.7	16.8	12.0
Management trainees	356	628	70.5	62.7	32.0	34.2
Sales workers	140,919	99,506	84.1	87.7	25.0	19.1
Office and clerical workers	41,170	33,847	87.2	89.2	22.1	18.3
Technicians, craft workers, operatives, laborers and service workers	44,658	38,911	67.1	68.4	30.5	24.3
Total	257,226	192,097	77.3	80.0	24.5	19.3

* 1993 does not include associate counts for the drugstore acquisitions.

corporate governance

The Company is aware that many of its stockholders are interested in matters of corporate governance. JCPenney shares this interest and is, and for many years has been, committed to assuring that the Company is managed in a way that is fair to all its stockholders and which allows its stockholders to maximize the value of their investment by participating in the present and future growth of JCPenney.

Independent Board of Directors. In keeping with its long-standing practice, the Company's Board continues to be an independent board under any reasonable definition. Nominees for directors are selected by a committee composed entirely of directors who are not Company employees. The wide diversity of expertise, experience, and achievements that the directors possess in business, investments, large organizations, and public affairs allows the Board to most effectively represent the interests of all the Company's stockholders.

Independent committees. The Audit Committee, Benefit Plans Review Committee, Committee on Directors, Personnel and Compensation Committee, and the Public Affairs Committee, all standing committees of the Board of Directors, are composed entirely of directors who are not employees of the Company. These committees, as well as the entire Board, consult with, and are advised by, outside consultants and experts in connection with their deliberations as needed.

Executive compensation. A significant portion of the cash compensation received by the Company's executive officers consists of performance incentive compensation payments derived from compensation plan "values." The amounts of these plan values are directly related to the annual and long-term sales and earnings of the Company and, consequently, vary from year to year based upon Company performance. The total compensation package for the Company's executive officers is set by the Personnel and Compensation Committee, which is composed entirely of directors who are not employees of JCPenney and which receives the advice of independent outside consultants. Please refer to the Company's 1998 Proxy Statement for a report from the Company's Personnel and Compensation Committee describing how compensation determinations are made.

Confidential voting. The Company has previously adopted a confidential voting policy statement. Under this policy, all proxy (voting instruction) cards, ballots, and vote tabulations, including telephone voting, that identify the particular vote of a stockholder are kept secret from the Company, its directors, officers, and employees. Proxy cards are returned in envelopes directly to the tabulator, who receives and tabulates the proxies. The final tabulation is inspected by inspectors of election who are independent of the Company, its directors, officers, and employees. The identity and vote of a stockholder is not disclosed to the Company, its directors, officers, or employees, or any third party except (i) to allow the independent election inspectors to certify the results of the vote; (ii) as necessary to meet applicable legal requirements and to assert or defend claims for or against the Company; (iii) in the event of a proxy solicitation based on an opposition proxy statement filed, or required to be filed, with the Securities and Exchange Commission; or (iv) in the event a stockholder has made a written comment on such material.

corporate information

ANNUAL MEETING

Our Annual Meeting of Stockholders will be held at 10 a.m. local time, Friday, May 15, at the Company's Home Office located at 6501 Legacy Drive, Plano, Texas 75024-3698. You are cordially invited to attend. The Annual Report and Proxy Statement, including a request for proxies, were mailed to stockholders on or about April 9, 1998.

STOCKHOLDER RELATIONS

TRANSFER AGENT/REGISTRAR

Inquiries about your stockholder records should be forwarded to:
ChaseMellon Shareholder Services L.L.C.
Shareholder Relations Department
P. O. Box 3315
South Hackensack, NJ 07606
1-800-842-9470
www.chasemellon.com

EXCHANGE LISTING

The New York Stock Exchange
(Ticker symbol - JCP)

STOCKHOLDER INVESTOR SERVICES PROGRAM

Investors may acquire shares of JCPenney common stock directly through a dividend reinvestment/direct purchase program as an alternative to broker assisted purchases. This program, which is being administered by The Chase Manhattan Bank, is available to both new and existing stockholders. The program has a minimum investment requirement of $25 for existing stockholders and is available to new stockholders after a minimum initial investment of $250.

The program offers full or partial dividend reinvestment as well as payment of dividends by check or electronic deposit. In addition, the program offers safekeeping of stock certificates, transfers or gifts of JCPenney shares, and the ability to sell or withdraw shares by telephone. To receive more information about this program, call 1-800-565-2576.

QUARTERLY NEWSLETTER

If you are not currently receiving the quarterly newsletter to stockholders and would like to do so, please write to us or contact us by fax, (972) 431-2212. You may also receive the quarterly newsletter from Public Relations through our home page on the Internet.

INTERNET ACCESS

Other public financial information is available through the Internet. Our Internet address is www.jcpenney.com

FINANCIAL/OTHER INFORMATION

Copies of the following are available upon request:

- The Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q filed with the Securities and Exchange Commission
- Eckerd Corporation's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q filed with the Securities and Exchange Commission
- JCPenney Quarterly News, a financial update
- JCPenney Minority Business Opportunities, a handbook to minority suppliers
- JCPenney Community Partners, the Company's social responsibility report
- Matters of Principle: JCPenney and Environmental Responsibility
- The JCPenney Supplier Legal Compliance Program
- JCPenney Funding Corporation's Annual Report

Requests for the above should be addressed to:
Public Relations Department
J. C. Penney Company, Inc.
P. O. Box 10001
Dallas, TX 75301-4301
1-800-953-9421

SALES RELEASE DATES FOR FISCAL 1998

Release Date	Sales Period
March 5	February
April 9	March
May 7	April
June 4	May
July 9	June
August 6	July
September 3	August
October 8	September
November 5	October
December 3	November
January 7, 1999	December
February 4, 1999	January 1999

EARNINGS RELEASE DATES FOR FISCAL 1998

Release Date	Quarter
May 15	1st Quarter
August 18	2nd Quarter
November 17	3rd Quarter
February 25, 1999	4th Quarter

SECURITY ANALYST & INVESTMENT PROFESSIONAL CONTACT

W. C. Watkins (972) 431-1972
Eli Akresh (972) 431-2207

BOARD OF DIRECTORS

James E. Oesterreicher [6]
Chairman of the Board
and Chief Executive Officer

M. Anthony Burns [1,5,6]
Chairman, President, and
Chief Executive Officer, Ryder System, Inc.

Vernon E. Jordan, Jr. [1,2,3]
Senior Partner, Law Firm of
Akin, Gump, Strauss, Hauer &
Feld, L.L.P.

George Nigh [2,3,4]
Retired President, University of Central Oklahoma, and
Formerly Governor of Oklahoma

Jane C. Pfeiffer [3,4,5]
Independent Management Consultant

Ann W. Richards [1,2,5]
Senior Advisor, Law Firm of
Verner, Liipfert, Bernhard, McPherson & Hand, and
Formerly Governor of Texas

Francisco Sanchez-Loaeza [1,6]
Chairman, Chief Executive Officer, and President,
Panamerican Beverages, Inc.

Charles S. Sanford, Jr. [1,3,6]
Retired Chairman and Chief Executive Officer, Bankers Trust
New York Corporation and Bankers Trust Company

R. Gerald Turner [4,5]
President, Southern Methodist University

W. Barger Tygart [6] *(Retires 1998)*
Vice Chairman of the Board

Joseph D. Williams [1,2,3,4] *(Retires 1998)*
Retired Chairman and Chief Executive Officer,
Warner-Lambert Company

BOARD COMMITTEES

1. Member of the Audit Committee of the Board of Directors. This committee recommends to the Board of Directors for stockholder approval the independent auditors for the annual audit of the Company's consolidated financial statements. The committee also reviews the independent auditors' audit strategy and plans, scope, fees, audit results of the auditors, and non-audit services and related fees; internal audit reports on the adequacy of internal accounting controls; the Company's ethics program; status of significant legal matters; the scope of the internal auditors' plans and budget and results of their audits; and the effectiveness of the Company's program for correcting audit findings.

2. Member of the Public Affairs Committee. This committee identifies, analyzes, and brings to the attention of the Board social and environmental trends, community affairs, and public policy issues that may have a potential impact on the business performance and investment character of the Company. It assures that Company policy and performance reflect a sensitivity toward the social and physical environments in which the Company does business and that such policy and performance are in accord with the public interest.

3. Member of the Committee on Directors. This committee makes recommendations to the Board with respect to the size, composition, and functions of the Board of Directors, the qualifications of directors, candidates for election as directors, and the compensation of directors.

4. Member of the Personnel and Compensation Committee. This committee reviews and administers the Company's annual and long term incentive compensation plans, makes recommendations in areas concerning personnel relations, and takes action or makes recommendations with respect to the compensation of Company executive officers, including those who are directors.

5. Member of the Benefit Plans Review Committee. This committee reviews annually the financial condition and investment performance results of the Company's retirement plans, annual actuarial valuation reports for the Company's pension plan, and the financial condition, investment performance results, and actuarial valuation aspects of the Company's welfare plans. It is also the committee that administers certain of the Company's retirement and welfare plans.

6. Member of the Finance Committee. This committee is responsible for reviewing the Company's financial policies, strategies, and capital structure.

MANAGEMENT COMMITTEE

James E. Oesterreicher
Chairman of the Board
and Chief Executive Officer

John T. Cody, Jr.
President and Chief Operating Officer, JCPenney Stores,
Merchandising, Marketing, and Catalog

Gary L. Davis
Executive Vice President, Chief Human Resources
and Administration Officer

Gale Duff-Bloom
President, Marketing and Company Communications

David V. Evans
Senior Vice President, Chief Information Officer

John E. Fesperman
President and Chief Operating Officer, JCPenney Insurance,
Credit, and Facilities Services

Thomas D. Hutchens
President and Chief Operating Officer, International

Charles R. Lotter
Executive Vice President, Secretary and General Counsel

William E. McCarthy *(Retires 1998)*
Formerly President, Catalog, Distribution, and Purchasing

Donald A. McKay
Executive Vice President and Chief Financial Officer

Francis A. Newman
Chairman of the Board, President
and Chief Executive Officer of Eckerd Corporation

Ted L. Spurlock *(Retires 1998)*
Formerly Senior Vice President, Director of Financial Services and Government Relations

Michael W. Taxter
Senior Vice President, Director of Strategic Development

W. Barger Tygart *(Retires 1998)*
Vice Chairman of the Board

Vice Chairman of the Board W. Barger Tygart retires in 1998, ending a 38-year career with JCPenney that he has described as "the first and only job I ever had." We gratefully acknowledge Barger's dedication and his many contributions to the Company's growth and success.

www.jcpenney.com

1997 J. C. Penney Company, Inc. annual report P.O. Box 10001 Dallas, Texas 75301